

# SHARE OFFER



## Affluent Foundation Holdings Limited 俊裕地基集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1757

Sole Sponsor



Sole Bookrunner and Sole Lead Manager



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## IMPORTANT

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



# Affluent Foundation Holdings Limited

## 俊裕地基集團有限公司

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

### SHARE OFFER

<b>Number of Offer Shares</b>	<b>: 300,000,000 Shares (subject to the Adjustment Options)</b>
<b>Number of Placing Shares</b>	<b>: 270,000,000 Shares (subject to reallocation and the Adjustment Options)</b>
<b>Number of Public Offer Shares</b>	<b>: 30,000,000 Shares (subject to reallocation)</b>
<b>Offer Price</b>	<b>: Not more than HK\$0.34 per Offer Share and not less than HK\$0.30 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)</b>
<b>Nominal value</b>	<b>: HK\$0.01 per Share</b>
<b>Stock code</b>	<b>: 1757</b>

#### Sole Sponsor



#### Sole Bookrunner and Sole Lead Manager



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

A copy of this prospectus, with the documents specified in the paragraph headed “Documents delivered to the Registrar of Companies in Hong Kong” in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around 29 May 2018 or such later date as may be agreed by the Sole Bookrunner and our Company, but in any event not later than 5 June 2018. The Offer Price will not be more than HK\$0.34 per Offer Share and is currently expected to be not less than HK\$0.30 per Offer Share unless otherwise announced. Investors applying for Public Offer Shares must pay, on application, the maximum Offer Price of HK\$0.34 for each Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is as finally determined lower than HK\$0.34.

If, for any reason, the Offer Price is not agreed between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company by the Price Determination Date, the Share Offer will not become unconditional and will lapse immediately.

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

Prospective investors of the Public Offer Shares should note that the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe, and to procure subscribers to subscribe for, the Public Offer Shares, are subject to termination by the Sole Bookrunner (for itself and on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of such provisions are set out in the section headed “Underwriting” in this prospectus.

23 May 2018

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

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If there is any change in the following expected timetable of the Public Offer, we will issue an announcement in Hong Kong to be posted on the website of our Company at [www.hcho.com.hk](http://www.hcho.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

2018  
(Note 1)

Latest time to complete electronic applications under the <b>HK eIPO White Form</b> service through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Monday, 28 May
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Monday, 28 May
Latest time for lodging <b>WHITE</b> Application Form and <b>YELLOW</b> Application Form and giving <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Monday, 28 May
Latest time to complete payment of <b>HK eIPO White Form</b> applications by effecting internet banking transfers(s) or PPS payment transfer(s) .....	12:00 noon on Monday, 28 May
Application lists of the Public Offer close <sup>(3)</sup> .....	12:00 noon on Monday, 28 May
Expected Price Determination Date <sup>(5)</sup> .....	Tuesday, 29 May
Announcement of the final Offer Price, the indication of levels of interest in the Placing, the level of applications in respect of the Public Offer and the basis of allotment of the Public Offer Shares under the Public Offer to be published on the website of our Company at <a href="http://www.hcho.com.hk">www.hcho.com.hk</a> <sup>(6)</sup> and on the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> .....	Wednesday, 6 June
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 headed "How to apply for the Public Offer Shares" in this prospectus from .....	Wednesday, 6 June

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

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2018  
(Note 1)

Results of allocations in the Public Offer will be available  
at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by  
ID Number/Business Registration Number” function from . . . . . Wednesday, 6 June

Despatch/collection of Share certificates in respect of  
wholly or partially successful Applications pursuant to  
the Public Offer on or before<sup>(7)</sup> . . . . . Wednesday, 6 June

Despatch/collection of **HK eIPO White Form** e-Auto Refund  
payment instructions/refund cheques in respect of wholly  
successful (if applicable) or wholly or partially unsuccessful  
applications pursuant to the Public Offer on or before<sup>(8)</sup> . . . . . Wednesday, 6 June

Dealings in the Shares on the Main Board are expected  
to commence at 9:00 a.m. on . . . . . Thursday, 7 June

*Notes:*

- (1) All times refer to Hong Kong local time. Details of the structure and conditions of the Share Offer, including its conditions, 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 our Company at [www.hcho.com.hk](http://www.hcho.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).
- (2) You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 28 May 2018, the application lists will not open or close on that day. Please refer to the paragraph headed “How to apply for the Public Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Monday, 28 May 2018, the dates mentioned in this section headed “Expected timetable” may be affected. We will make a press announcement in such event.
- (4) Applicants who apply for the Public Offer Shares by giving electronic application instructions to HKSCC should refer to the paragraph headed “How to apply for the Public Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Tuesday, 29 May 2018 (or such other date as may be agreed between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company. If, for any reason, the Offer Price is not agreed between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company by Tuesday, 5 June 2018, the Share Offer (including the Public Offer) will not proceed and will lapse immediately.
- (6) None of our Company’s website or any information contained on our Company’s website forms part of this prospectus.
- (7) Applicants who apply for 1,000,000 or more Public Offer Shares and have provided all information required in their Application Forms that they may collect Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 6 June 2018

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

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or any other date notified by us as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his 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. Applicants who have applied on **YELLOW** Application Form may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed "How to apply for the Public Offer Shares – 14. Despatch/collection of share certificates and refund monies" in this prospectus.

- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price as finally determined is less than the maximum Offer Price per 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 "How to apply for the Public Offer Shares" in this prospectus.

Applicants who apply through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Services Provider, in the form of refund cheques, by ordinary post at their own risk.

**Share certificates are expected to be issued on Wednesday, 6 June 2018 but will only become valid certificates of title at 8:00 a.m. on Thursday, 7 June 2018 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 their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.**

Particulars of the structure and conditions of the Share Offer, including the conditions thereto, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus. Details relating to how to apply for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

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### IMPORTANT NOTICE TO INVESTORS

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

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Underwriters, any of their respective directors, officers, representatives or advisers or any other person involved in the Share Offer. Information contained on our Company's website at [www.hcho.com.hk](http://www.hcho.com.hk) does not form part of this prospectus.*

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## SUMMARY

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

### BUSINESS OVERVIEW

*Our business.* We are a subcontractor engaged in the provision of services related to foundation works in Hong Kong including ELS works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks and structural steelworks. To a lesser extent, we also engage in leasing of machineries to third party construction companies.

*Our revenue.* During the Track Record Period, our total revenue amounted to approximately HK\$259.4 million, HK\$502.1 million, HK\$396.9 million and HK\$206.1 million, respectively. The following table sets forth the number of foundation projects handled and breakdown of revenue attributable to public sector projects (including projects where the ultimate employer(s) are government departments or statutory bodies) and private sector projects (including projects where the ultimate employer(s) are property developer(s) or land owner(s)) during the Track Record Period:

	2015			For the year ended 31 March						For the eight months ended 30 November					
	No. of projects handled	Revenue	% of total revenue	No. of projects handled	Revenue	% of total revenue	No. of projects handled	Revenue	% of total revenue	No. of projects handled	Revenue	% of total revenue	No. of projects handled	Revenue	% of total revenue
	HK\$'000			HK\$'000			HK\$'000			(Unaudited)					
										2016			2017		
Private sector	22	195,564	75.4	18	446,044	88.8	20	287,935	72.5	15	124,243	61.7	20	67,578	32.8
Public sector	11	63,839	24.6	7	56,009	11.2	11	108,945	27.5	11	77,159	38.3	13	138,537	67.2
<b>Total</b>	<b>33</b>	<b>259,403</b>	<b>100.0</b>	<b>25</b>	<b>502,053</b>	<b>100.0</b>	<b>31</b>	<b>396,880</b>	<b>100.0</b>	<b>26</b>	<b>201,402</b>	<b>100.0</b>	<b>33</b>	<b>206,115</b>	<b>100.0</b>

During the Track Record Period, we completed 13, 11, 12 and two projects, respectively. For the breakdown of such projects based on their original contract sum, please refer to the paragraph headed “Business – Our Projects” in this prospectus. We recognised a total revenue of approximately HK\$890.3 million from these 38 completed projects.



## SUMMARY

The following table sets forth the movement of backlog of our projects during the Track Record Period:

	2015		For the year ended 31 March				For the eight months ended		For the period from	
			2016		2017		30 November		1 December 2017	
	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000 (Unaudited)	Number of contracts attributed (Unaudited)	Approximately HK\$'000 (Unaudited)	Number of contracts attributed
Opening aggregate original contract sum of backlog	313,019.4	20	743,186.4	20	516,272.9	14	426,603.0	18	807,125.0	29
Aggregate original contract sum of new contracts commenced ( <i>Note</i> )	541,216.4	13	141,479.7	5	323,554.4	16	415,566.8	13	230,206.4	3
Aggregate original contract sum of completed contracts	(111,049.4)	(13)	(368,393.2)	(11)	(413,224.3)	(12)	(35,044.8)	(2)	-	-
Closing original contract sum of backlog	<u>743,186.4</u>	<u>20</u>	<u>516,272.9</u>	<u>14</u>	<u>426,603.0</u>	<u>18</u>	<u>807,125.0</u>	<u>29</u>	<u>1,037,331.4</u>	<u>32</u>

*Note:* The original contract sum is based on the initial agreement between our customer and us and may not include additions, modifications due to subsequent variation orders, as such final revenue recognised from a contract may differ from the original contract sum.

As at the Latest Practicable Date, we had 32 contracts on hand with a total outstanding contract value of approximately HK\$458.8 million. Based on the management's estimation, taking into account the respective existing timetable, approximately HK\$386.5 million and approximately HK\$72.3 million are expected to be recognised for year ending 31 March 2019 and 2020, respectively.

*Our tender process.* Our Group mainly obtained construction projects from the main contractors through tenders. The number of projects tendered and won by us during the Track Record Period is as follows:

	For the year ended 31 March			For the
	2015	2016	2017	eight months ended 30 November 2017
Number of tenders submitted	162	114	173	68
Number of contracts awarded to our Group	14	6	18	10
Success rate (%)	8.6	5.3	10.4	14.7

*Note:* Tender success rate is calculated by dividing the number of contracts awarded in respect of the tenders submitted during a financial year by the number of tenders submitted during the financial year.

We recorded a relatively low tender success rate as (i) we usually submit tender to keep our presence in the market and keep us abreast of the market requirements and pricings and (ii) we were preoccupied with two sizeable projects for the year ended 31 March 2016, and we adopt a relatively prudent approach in costs estimation which might have caused our tender price to be less competitive.

## SUMMARY

*Our pricing strategy.* Our pricing is determined based on a cost-plus pricing model in general with the markup which is determined on a project-by-project basis, by making reference to: (i) the nature, scope and complexity of the works involved; (ii) the availability of our manpower, machineries and resources; (iii) the material costs and subcontracting charges involved in the project; and (iv) the project timetable.

*Our direct costs.* Our direct costs consist of material costs, staff costs, subcontracting charges, transportation expenses, depreciation expenses and other direct costs and the breakdown of which during the Track Record Period are set out below:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Material costs	83,624	35.9	232,417	49.1	154,797	43.4	76,826	42.3	95,656	52.7
Staff costs	76,172	32.7	112,546	23.8	64,074	18.0	42,154	23.2	37,697	20.8
Subcontracting charges	18,622	8.0	53,119	11.2	75,271	21.1	36,223	19.9	21,899	12.0
Transportation expenses	24,044	10.3	37,269	7.9	32,165	9.0	15,271	8.4	12,428	6.8
Depreciation expenses	9,838	4.2	9,189	1.9	8,554	2.4	5,645	3.1	4,884	2.7
Other direct costs	20,319	8.7	28,382	6.0	21,514	6.0	5,714	3.1	9,013	5.0
Total	232,619	100.0	472,922	100.0	356,375	100.0	181,833	100.0	181,577	100.0

## CUSTOMERS

Revenue attributable to our Group's five largest customers during the Track Record Period amounted to approximately 93.6%, 98.1%, 82.0% and 83.7% of our total revenue, respectively and approximately 48.0%, 55.7%, 5.9% and 11.0% of our total revenue was attributable to New Concepts Group, respectively. Our Directors confirm that the drop in revenue attributable to New Concepts Group for the year ended 31 March 2017 was due to the completion of Project 16 in August 2015 and Project 33 in April 2016, which in aggregate had taken up a significant portion of our Group's then resources and reduced our capacity to undertake projects from other customers at the time. After the completion of these two projects, we can undertake projects from other customers.

The following table sets forth breakdown of our gross profit and gross profit margin by customer segments during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Private sector	20,781	10.6	23,840	5.3	29,039	10.1	11,575	9.3	8,693	12.9
Public sector	6,003	9.4	5,291	9.4	11,466	10.5	7,994	10.4	15,845	11.4
Total	26,784	10.3	29,131	5.8	40,505	10.2	19,569	9.7	24,538	11.9

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## SUMMARY

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### SUPPLIERS AND SUBCONTRACTORS

Our suppliers mainly include: (i) suppliers of construction materials such as ready-mix concrete and steel products; (ii) transportation service providers; (iii) lessors of machinery and repair and maintenance service providers; and (iv) suppliers of other parts and consumables and other miscellaneous goods. During the Track Record Period, our top five suppliers accounted for approximately 65.0%, 81.5%, 77.3% and 73.6% of our total purchases incurred (excluding subcontracting charges incurred), respectively, and our largest supplier accounted for approximately 41.9%, 53.7%, 36.3% and 45.6% of our total purchases incurred (excluding subcontracting charges incurred), respectively.

During the Track Record Period, we had contra-charge arrangement with some of our customers and pursuant to which our customer may purchase materials on our behalf, and such purchase cost is settled by way of netting off the amounts due to us from our customers. During the Track Record Period, our contra-charge incurred amounted to approximately HK\$66.2 million, HK\$205.1 million, HK\$156.1 million and HK\$93.7 million, respectively. For further details, please refer to the paragraph headed “Business – Our suppliers – Contra-charge arrangement with our customer which is also our supplier” in this prospectus.

Depending on our capability and resources level, we may subcontract specific parts of a project such as rebar fixing, drainage works and formworks to our subcontractors to save our staff costs. During the Track Record Period, the total subcontracting charges accounted for approximately 9.8%, 17.0%, 23.8% and 17.0% of our total purchases incurred, respectively. The increasing trend of our subcontracting charges was mainly due to (i) the increasing trend of the wage of construction workers; (ii) the increase in engaging subcontractors for projects which are labour intensive and/or requires specific skills to carry out certain types of works such as bar-fixing, structure steel works and cement works; and (iii) hiring subcontractors offers more flexibility to our business operation.

### COMPETITIVE STRENGTHS

Our Directors believe that our Group possesses the competitive strengths including: (i) we established history and a proven track record as a subcontractor providing services in relation to foundation works; (ii) a wide range of machineries and equipment owned by us to conduct our services in relation to foundation works; (iii) our experienced and dedicated management team and direct workforce; and (iv) our long-term and stable relationships with our customers, suppliers and subcontractors.

### COMPETITIVE LANDSCAPE

According to the CIC Report, the top five contractors in the foundation industry accounting for approximately 58.5% market share in 2017 with a total business revenue of approximately HK\$8,147.3 million, and the main entry barriers to the Hong Kong’s foundation industry include (i) capital requirements; (ii) possession of relevant licences and registration; (iii) proven track record of successful project completions; and (iv) possession of technical know-how. On the other hand, our competitive advantages, such as long operating history and good reputation, proven track record, well-established networks and large quantity of privately-owned machinery have all together enabled us to continue our growth. The main drivers of Hong Kong’s foundation industry include (i) large number of mega public infrastructure projects by the Hong Kong Government; (ii) fast growing number of high-rise buildings and skyscrapers in Hong Kong; (iii) increasing residential property projects in Hong Kong; and (iv) Hong Kong Government’s plan for old building reconstruction or restoration.

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## SUMMARY

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### BUSINESS STRATEGIES

Our principal business objective is to achieve a sustainable growth and further strengthen our position in the foundation industry in Hong Kong. To this end, we intend to: (i) compete for foundation projects and expanding our market share particularly from the public sector, so as to capture the business opportunities from the increase in public projects originated from the Government's plan to increase public housing supply and restore old buildings; (ii) acquire additional machineries to strengthen our machinery fleet; and (iii) further expand our manpower and strengthening the skills of our employees. For more details, please refer to the paragraph headed "Business – Business strategies" in this prospectus.

### HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our history can be traced back to 1996 when HCC Transportation was incorporated to provide services with respect to foundation works and other works in the construction industry in Hong Kong. For details, please refer to the section headed "History, Reorganisation and corporate structure" of this prospectus. Our Group consists of our Company and our subsidiaries including our principal subsidiary, HCC Foundations. In preparation for the Listing, our Group underwent the Reorganisation whereby our Company became the ultimate holding company of our Group. For details of our Group's Reorganisation, please refer to the paragraph headed "History, Reorganisation and corporate structure – Reorganisation" of this prospectus.

### CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme), each of our Controlling Shareholders, Mr. Chan, Ms. Chu and Oriental Castle will control approximately 75% of the issued share capital in our Company. Hence, Mr. Chan, Ms. Chu and Oriental Castle will be our Controlling Shareholders within the meaning of the Listing Rules. For further details, please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus. Mr. Chan is the chairman of our Board, chief executive officer of our Company and executive director of our Company.

### KEY OPERATIONAL AND FINANCIAL DATA

**Selected information extracted from combined statements of profit or loss and other comprehensive income**

	For the year ended 31 March			For the eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
Revenue	259,403	502,053	396,880	201,402	206,115
Direct costs	(232,619)	(472,922)	(356,375)	(181,833)	(181,577)
Gross profit	26,784	29,131	40,505	19,569	24,538
Profit before income tax	21,364	26,566	31,450	17,288	11,135
Profit and total comprehensive income for the year/period	17,837	22,200	25,825	14,428	8,023

The increase of our revenue from approximately HK\$259.4 million for the year ended 31 March 2015 to approximately HK\$502.1 million in 2016, was mainly attributable to the increase in number of relatively larger scale and higher income projects as a result of our sizable project,

## SUMMARY

namely Project 33. The decrease of our revenue from approximately HK\$502.1 million in 2016 to approximately HK\$396.9 million in 2017 was mainly attributable to a decrease in the number of relatively large scale and higher income projects as a result of the completion of sizable projects, namely, Project 16, Project 30 and Project 33. The increase of our revenue from approximately HK\$201.4 million for the eight months ended 30 November 2016 to approximately HK\$206.1 million for the same period in 2017 was mainly attributable to an increase in the number of projects handled and an increase in number of relatively larger scale and higher income project.

Our gross profit increased from approximately HK\$26.8 million for the year ended 31 March 2015 to approximately HK\$29.1 million for the year ended 31 March 2016. However, our overall gross profit margin decreased from approximately 10.3% to approximately 5.8%, respectively, during the same year which was mainly attributable to the lower profit margin of our Project 16 and Project 33 undertaken in the 2016 as they involved large scale and complex deep excavation works. In particular, boulders were revealed in Project 16 and water immersion happened in Project 33 during the course of the excavation works, which required extra manpower and incurred extra costs. In addition, the low gross profit margin of our Project 33 was attributable to the tight project period of 240 days which incurred significant amount of direct labour costs and overtime costs.

Our gross profit increased from approximately HK\$29.1 million for the year ended 31 March 2016 to approximately HK\$40.5 million for the year ended 31 March 2017, due to the revenue generated from Project 39, Project 40, Project 47, Project 49, Project 50 and Project 52, at approximately HK\$22.8 million for the year ended 31 March 2017, as compared to nil for 2016. During the same period, our overall gross profit margin increased from approximately 5.8% to approximately 10.2%, respectively, which was due to the higher profit margin of Project 36 and Project 37 and other 16 projects than our overall gross profit margin for the year ended 31 March 2017.

Our gross profit increased from approximately HK\$19.6 million for the eight months ended 30 November 2016 to approximately HK\$24.5 million for the corresponding period in 2017 and our gross profit margin increased from approximately 9.7% to approximately 11.9%. Such increase was mainly attributable to (i) higher gross profit margin for our new tenders submitted in the year ended 31 March 2017; (ii) the higher profit margin of our sizable projects, namely, Project 55, Project 56 and Project 60 for the eight months ended 30 November 2017; and (iii) our nine new projects which had higher gross profit margin.

### Selected information extracted from combined statements of financial position

	As at 31 March			As at
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	83,541	100,590	150,307	130,142
Current liabilities	88,078	81,180	102,817	74,903
Net current (liabilities)/assets	(4,537)	19,410	47,490	55,239
Net assets	17,510	39,710	65,535	73,558
Total assets	109,930	129,664	175,449	152,605

We recorded net current liabilities of approximately HK\$4.5 million as at 31 March 2015, which was primarily attributable to the increase in trade and other payables of approximately HK\$10.1 million mainly resulted from the increase in amount payable to our transportation services providers for our larger scale projects commenced during the year ended 31 March 2015.

## SUMMARY

### Selected information extracted from combined statements of cash flows

	For the year ended 31 March			For the eight months ended 30 November	
	2015	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Net cash from/(used in) operating activities	10,980	1,273	22,581	4,738	(11,182)
Net cash (used in)/from investing activities	(1,907)	456	601	366	(1,433)
Net cash used in financing activities	(5,784)	(6,606)	(2,007)	(278)	(6,509)
Net increase/(decrease) in cash and cash equivalents	3,289	(4,877)	21,175	4,826	(19,124)
Cash and cash equivalents at the beginning of year/period	5,681	8,970	4,093	4,093	25,268
Cash and cash equivalents at the end of year/period	<u>8,970</u>	<u>4,093</u>	<u>25,268</u>	<u>8,919</u>	<u>6,144</u>

Our net cash generated from operating activities decreased from approximately HK\$11.0 million for the year ended 31 March 2015 to approximately HK\$1.3 million for the year ended 31 March 2016. The decrease was mainly attributable to (i) the increase in trade and other receivables of approximately HK\$10.8 million mainly in relation to our Project 30, Project 33 and Project 34; and (ii) the increase in our amounts due from customers for contract work of approximately HK\$11.1 million.

For the eight months ended 30 November 2017, our net cash used in operating activities amounted to approximately HK\$11.2 million, which was mainly attributable to (i) decrease in our trade and other receivables of approximately HK\$18.7 million; (ii) decrease in our trade and other payables of approximately HK\$24.9 million mainly in relation to the completion of our Project 30 and Project 47; and (iii) increase in amounts due from customers for contract work of approximately HK\$17.7 million.

### KEY FINANCIAL RATIOS

Selected Ratios	Formulae	As at/for the year ended 31 March			As at/for the eight months ended
		2015	2016	2017	30 November 2017
Return on assets	Net profit/total assets x 100%	16.2%	17.1%	14.7%	N/A (Note 2)
Return on equity	Net profit/total equity x 100%	101.9%	55.9%	39.4%	N/A (Note 2)
Gearing ratio	Total debt/total equity (Note 1)	200.9%	84.0%	46.4%	27.3%
Current ratio	Current assets/current liabilities	0.9 times	1.2 times	1.5 times	1.7 times
Quick ratio	(Current assets – inventories)/current liabilities	0.9 times	1.2 times	1.5 times	1.7 times
Interest coverage	Profit before interest and tax/finance costs	27.9 times	27.5 times	27.0 times	23.0 times

#### Notes:

- Total debt includes bank borrowings, amount due to a director and obligations under finance leases.
- Return on assets and return on equity are calculated on a full year basis.

## SUMMARY

### DIVIDEND

Our Group did not declare any dividend during the Track Record Period. We do not have any predetermined dividend payout ratio. After the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. The declaration, payment and amount of any future dividends will be subject to our Memorandum and Articles of Association and the Companies Laws including, where necessary, the approval of our Shareholders. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

### FUTURE PLANS AND PROPOSED USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer to be approximately HK\$65.0 million, assuming the Adjustment Options are not exercised and the Offer Price is HK\$0.32 per Share, being the mid-point of the proposed Share Offer Price range of HK\$0.30 to HK\$0.34 per Share. We intend to apply the net proceeds in the following manner:

<b>Approximate amount of net proceeds/utilised</b>	<b>Intended applications</b>
Approximately HK\$40.0 million, or approximately 61.5%	Acquire additional machineries and equipment comprising excavators and crawler cranes
Approximately HK\$14.0 million, or approximately 21.5%	Strengthen our Groups manpower by (i) recruiting 15 additional full-time staff including three project managers, three site supervisors, three quantity surveyors and six machine operators; and (ii) providing trainings to our staff to update their knowledge and enhance their skills
Approximately HK\$10.0 million, or approximately 15.4%	Secure more contracts we plan to tender, which it is generally required to take out surety bonds issued by banks and insurance companies in the amount of certain percentage of the original contract sum in favour of the potential customers
Approximately HK\$1.0 million, or approximately 1.6%	General working capital of our Group

For the period from the Listing Date to 31 March 2021, our net proceeds from the Share Offer will be used as follows:

	<b>From the Listing Date to 31 March 2019</b>	<b>From 1 April 2019 to 31 March 2020</b>	<b>From 1 April 2020 to 31 March 2021</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>
Acquire new machinery and equipment	12,462	15,930	11,604	39,996
Strengthen our manpower and strengthening the skills of our employees	2,830	5,513	5,657	14,000
Reserve more capital to satisfy our potential requirement for surety bond	4,000	4,000	2,000	10,000
General working capital	1,004	-	-	1,004
				<u>65,000</u>



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## SUMMARY

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

### OFFERING STATISTICS

	<b>Based on the minimum Offer Price of HK\$0.30 per Share</b>	<b>Based on the maximum Offer Price of HK\$0.34 per Share</b>
Market capitalisation at Listing ( <i>Note 1</i> )	HK\$360.0 million	HK\$408.0 million
Unaudited pro forma adjusted combined net tangible assets attributable to equity holders of the Company per Share ( <i>Note 2</i> )	HK\$0.12	HK\$0.13

#### *Notes:*

1. The calculation of our market capitalisation is based on 1,200,000,000 Shares which will be in issue immediately following completion of the Share Offer, but takes no account of any Shares which may be issued upon the exercise of the Adjustment Options and any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate to issue shares and general mandate to repurchase shares as described in the section headed “Share capital” in this prospectus.
2. The unaudited pro forma adjusted combined net tangible assets per Share is determined after the adjustments as described in note 4 in the section headed “Unaudited pro forma financial information – A. Unaudited pro forma statement of adjusted combined net tangible assets” set out in Appendix II in this prospectus and on the basis that 1,200,000,000 Shares are issued and outstanding as set out in the section headed “Share capital” in this prospectus, but takes no account of any Shares which may be issued upon the exercise of the Adjustment Options or the options which may be granted under the Share Option Scheme.

### LITIGATION AND LEGAL COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, our Group was involved in a number of claims and litigations, and we also recorded one fatal accident at a construction site where an employee of our Group was fatally injured in the course of work and subsequently certified dead. For details, please refer to the paragraph headed “Business – Litigation and potential claims” of this prospectus. In addition, during the Track Record Period, we had certain non-compliance incidents involving breaches and non-compliance of certain laws and regulations in Hong Kong. All these non-compliances have been duly rectified before the Latest Practicable Date. For details, please refer to the section headed “Business – Non-compliance” of this prospectus.

### RISK FACTORS

There are a number of risks involved in our business and operations, and we believe that our major risks include (i) our concentration of customers during the Track Record Period; (ii) inaccurate estimation of contract price or ineffective cost management; (iii) our projects are not recurring in nature, and there is no guarantee of new business or that we can secure new contracts; and (iv) our historical results may not be indicative of our future revenue and profit margin. A detailed discussion of the risk factors is set forth in the section headed “Risk factors” in this prospectus. Prospective investors should read the “Risk factors” section in its entirety before making any investment decision in the Listing.

### LISTING EXPENSES

Our estimated listing expenses, including underwriting commissions, are approximately HK\$31.0 million and out of which, approximately HK\$12.0 million is directly attributable to the issue of Shares to the public and will be accounted for as a deduction from equity upon completion of the Share Offer. The remaining estimated Listing expenses of approximately HK\$19.0 million, was or will be charged to our profit or loss, of which approximately HK\$10.3 million had been recorded in the combined statement of profit or loss and other comprehensive income during the Track Record Period, and approximately HK\$12.6 million and HK\$3.7 million are charged/expected to be charged to the consolidated statement of profit or loss and other



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## SUMMARY

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comprehensive income for the year ended/ending 31 March 2018 and 2019, respectively. This calculation is based on the Offer Price of HK\$0.32 per Share (being the mid-point of the Offer Price range stated in this prospectus) and the assumption that 300,000,000 Shares are to be offered under the Share Offer and is subject to the adjustment based on the actual amount incurred or to be incurred.

### RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, two additional contracts with an aggregate original contract sum of approximately HK\$165.9 million were awarded to us. As at the Latest Practicable Date, we had 32 projects on hand with a total original contract sum of approximately HK\$1,037.3 million, of which approximately HK\$474.1 million had been recognised for the three years ended 31 March 2017 and the eight months ended 30 November 2017. Our Group expects a decrease in revenue and increase in gross profit and gross profit margin for the year ended 31 March 2018. A decrease in revenue is expected as we had completed 12 projects in the year ended 31 March 2017, but our new sizeable projects such as Project 67, Project 68, Project 69 and Project 70 were only in their early stage for the year ended 31 March 2018. The expected increase in gross profit and gross profit margin is attributable to the higher profit margin of Project 55, Project 56, Project 60 and other nine new projects. Nevertheless, prospective investors should note that the financial performance of our Group for the year ended 31 March 2018 was materially and adversely affected by (i) the change in amount of the direct cost, staff cost and other income; and (ii) the non-recurrent expenses in relation to the Listing. Prospective investors are specifically warned that, given the aforesaid factors, our Group's financial performance, including the profit margin and net profit, for the year ended 31 March 2018 may not be comparable to that of the previous year.

Our Directors have confirmed that, save for the Listing expenses, subsequent to the Track Record Period and up to the date of this prospectus, there was no material adverse change in the trading and financial position or prospects of our Group and no event had occurred that would materially and adversely affect the information shown in the Accountants' Report as set out in Appendix I to this prospectus.

### PROFIT ESTIMATE FOR THE YEAR ENDED 31 MARCH 2018

Our Directors estimate, on the bases set out in Appendix III to this prospectus, that our estimated consolidated profit attributable to equity holders of our Company and unaudited pro forma estimated earnings per Share for the year ended 31 March 2018 as follows:

Estimated unaudited combined profit attributable to equity holders of our Company . . . . .	Not less than HK\$16.0 million
Unaudited pro forma estimated earnings per Share for the year ended 31 March 2018 . . . . .	Not less than HKcents 1.33

The profit estimate, for which our Directors are solely responsible, has been prepared by them based on (i) the audited combined results for the eight months ended 30 November 2017 set out in the Accountants' Report in Appendix I to this prospectus; and (ii) the unaudited combined results based on the management accounts of our Group for the four months ended 31 March 2018.

The calculation of the unaudited pro forma estimated earnings per Share for the year ended 31 March 2018 is based on the estimated unaudited combined profit attributable to the equity holders of our Company for the year ended 31 March 2018 and on the assumptions that a total number of 1,200,000,000 Shares had been in issue throughout the year ended 31 March 2018, without taking into account any Shares which (i) may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued upon exercise of the Adjustment Options; or (ii) any Shares may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

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## DEFINITIONS

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*Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary of technical terms”.*

“Accountants’ Report”	the accountants’ report of our Group prepared by the Reporting Accountants as set out in Appendix I to this prospectus
“Adjustment Options”	the Offer Size Adjustment Option and the Over-allotment Option
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Affluent Century”	Affluent Century Investments Limited, a company incorporated in BVI on 16 March 2017 with liability limited by shares and a direct wholly-owned subsidiary of our Company after the Reorganisation
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any one of them, relating to the Public Offer
“Art Ventures”	Art Ventures Worldwide Limited, a company incorporated in BVI on 20 March 2017 with liability limited by shares and an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company adopted on 14 May 2018, a summary of which is set out in Appendix IV to this prospectus, and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors

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## DEFINITIONS

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“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not (i) a Saturday, Sunday or public holiday in Hong Kong or (ii) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a method of assessing the average growth of a value over time
“Capitalisation Issue”	the issue of 899,990,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Further information about our Company and its subsidiaries – 3. Resolutions in writing of the sole Shareholder” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, which excludes for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“CIC”	China Insights Consultancy Limited, an independent market research and consulting firm
“CIC Report”	an independent market research report in respect of the foundation industry in Hong Kong, prepared by CIC which was commissioned by our Company

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## DEFINITIONS

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“Companies Law” or “Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), which came into effect on 3 March 2014, 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, supplemented or otherwise modified from time to time
“Company” or “our Company”	Affluent Foundation Holdings Limited (俊裕地基集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 2 June 2017
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and, unless the context requires otherwise, collectively refers to Mr. Chan, Ms. Chu and Oriental Castle who, together, will control the exercise of 30% or more of the voting rights in the general meeting of our Company immediately after the Share Offer
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 14 May 2018 entered into between our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), the particulars of which are set out in the paragraph headed “Other information – 2. Tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 14 May 2018 made by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), which contains certain non-compete undertakings given in favour of our Group, the particulars of which are set out in the section headed “Relationship with Controlling Shareholders – Deed of Non-competition” in this prospectus
“Director(s)”	director(s) of our Company

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## DEFINITIONS

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“EPD” or “Environmental Protection Department”	Environmental Protection Department of the Government
“Government” or “Hong Kong Government”	the government of Hong Kong
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by <b>HK eIPO WHITE Form</b> Service Provider, designated by our Company
“Group”, “our Group”, “we” or “us”	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 its present subsidiaries pursuant to the Reorganisation, its present subsidiaries
“HCC Foundations”	Hong Chang Construction Foundations (Holdings) Limited (洪昌建築地基(集團)有限公司), a company incorporated in Hong Kong on 14 April 2009 with limited liability and a wholly-owned subsidiary of our Company
“HCC Transportation”	Hong Chang Construction Transportation Engineering Company Limited (洪昌建築運輸工程有限公司), a company incorporated in Hong Kong on 15 October 1996 with limited liability and a wholly-owned subsidiary of our Company
“HK eIPO White Form”	the application for issue of Public Offer Shares in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK\$” or “Hong Kong dollar(s)” or “HKD” or “cents” or “\$”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s)
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

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## DEFINITIONS

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“Hong Kong” or “HKSAR”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“Independent Third Party(ies)”	individual(s) or a company(ies) who is (or are) not a connected person (within the meaning of the Listing Rules) of our Company, any of its subsidiaries or any of their respective associates
“Internal Control Consultant”	CT Partners Consultants Limited, the internal control consultant of our Company
“Joint Counsel”	Ms. Ng Wing Shan Queenie and Ms. Kwong Wai Yu Claris, both of them are barrister-at-law in Hong Kong and Independent Third Parties
“Latest Practicable Date”	14 May 2018, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its printing
“laws”	include all laws, rules, regulations, guidelines, opinions (whether formally published or not), notices, circulars, orders, judgements, decrees or rulings of any court, government, governmental or regulatory authority whether or not ejusdem generis with any of the foregoing (including, without limitation, the Stock Exchange) and “law” shall be construed accordingly
“Legal Counsel”	Mr. Chan Chung, barrister-at-law in Hong Kong, who is an Independent Third Party
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 7 June 2018, on which dealings in the Shares on the Main Board first commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)

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## DEFINITIONS

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“Luxury Golden”	Luxury Golden Worldwide Limited, a company incorporated in BVI on 20 March 2017 with liability limited by shares and an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company adopted on 14 May 2018, a summary of which is set out in Appendix IV to this prospectus, and as amended from time to time
“Mr. Chan”	Mr. Chan Siu Cheong (陳紹昌), an executive Director, the spouse of Ms. Chu and one of the Controlling Shareholders
“Ms. Chu”	Ms. Chu Wai Ling (朱惠玲), the spouse of Mr. Chan and one of the Controlling Shareholders
“New Concepts Group”	represents New Concepts Foundation Limited, New Concepts Engineering Development Limited and New Concepts Trading Company Limited
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.34 and not less than HK\$0.30 at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer, to be determined as described under the paragraph headed “Structure and conditions of the Share Offer – Determining the Offer Price” in this prospectus
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Offer Size Adjustment Option”	the option expected to be granted by our Company to the Sole Bookrunner (for itself and on behalf of the Placing Underwriter) under the Placing Underwriting Agreement exercisable prior to Listing, pursuant to which our Company may be required to allot and issue up to an aggregate 45,000,000 additional Offer Shares (representing up to 15% of the Offer Shares initially available under the Share Offer) at the Offer Price solely to cover over-allotment in the Placing

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## DEFINITIONS

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“Oriental Castle”	Oriental Castle Group Limited, a company incorporated in BVI on 20 March 2017 with liability limited by shares and owned as to 90% by Mr. Chan and 10% by Ms. Chu, which together with Mr. Chan and Ms. Chu are our Controlling Shareholders
“Over-allotment Option”	the option expected to be granted by our Company to the Placing Underwriter, exercisable by Sole Bookrunner (for itself and on behalf of the Placing Underwriter) subject to the terms and conditions of the Placing Underwriting Agreement pursuant to which our Company may be required to allot and issue up to an aggregate of 45,000,000 additional Offer Shares (representing 15% of the initial number of the Offer Shares) to cover over-allocations in the Placing and/or to satisfy the obligation of the stabilising manager to return securities borrowed under the stock borrowing agreement, particulars of which are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing”	the conditional placing of the Placing Shares by the Underwriters with professional, institutional, corporate and/or other investors at the Offer Price, as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 270,000,000 Shares initially being offered by us for subscription at the Offer Price under the Placing (subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Placing Underwriter”	the underwriter of the Placing that are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing which is expected to be entered into by, among others, the Sole Sponsor, the Sole Bookrunner, our Controlling Shareholders, our executive Directors and our Company on or around the Price Determination Date, as further described in the section headed “Underwriting” in this prospectus



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## DEFINITIONS

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“Predecessor Companies Ordinance”	the 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 between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on or around the Price Determination Date to fix the Offer Price
“Price Determination Date”	the date, expected to be on or about 29 May 2018 (or such other date as may be agreed between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company), on which the Offer Price is to be fixed
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription by the public in Hong Kong as described in the section headed “Structure and conditions of the Share Offer” in this prospectus for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
“Public Offer Shares”	the 30,000,000 Shares initially being offered for subscription by our Company at the Offer Price 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 paragraph headed “Underwriting – Public Offer Underwriter” in this prospectus
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 21 May 2018 relating to the Public Offer and entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriter, as further described in the section headed “Underwriting – Public Offer Underwriting Agreement” in this prospectus
“Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History, reorganisation and corporate structure” to this prospectus

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## DEFINITIONS

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“Reporting Accountants”	Grant Thornton Hong Kong Limited, Certified Public Accountants, the reporting accountants of our Company
“SFC” or “Securities and Futures Commission”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of nominal or par value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	shareholder(s) of our Company from time to time
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 14 May 2018, the principal terms of which are summarised under the paragraph headed “Other Information – 1. Share Option Scheme” in Appendix V to this prospectus
“Sole Bookrunner” or “Sole Lead Manager” or “Stabilising Manager”	Head & Shoulders Securities Limited, a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities
“Sole Sponsor” or “Dakin Capital”	Dakin Capital Limited, a licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity, acting as the sole sponsor to our Company’s application for the Listing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Track Record Period”	comprises the period for the three years ended 31 March 2017 and the eight months ended 30 November 2017
“Underwriters”	the Public Offer Underwriter and the Placing Underwriter

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## DEFINITIONS

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“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“U.S. dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“%”	per cent.

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

*If there is any inconsistency between the Chinese names of entities and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” is for identification purpose only.*

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## GLOSSARY OF TECHNICAL TERMS

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

“Construction Industry Council” or “HKCIC”	Construction Industry Council, the body established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)
“ELS”	excavation and lateral support, the system of construction works for the purposes of shoring support in the excavated area and, if applicable, drainage measures and avoidance of adverse effect on the adjacent structures
“GDP”	gross domestic product
“lateral support”	a type of structure support to help prevent sideways movement
“main contractor”	in respect of a construction project, a contractor appointed by the project employer or its construction consultant, who generally oversees the progress of the entire construction project and delegate different work tasks of the construction to other contractors
“NRMM”	Non-road mobile machinery
“NRMM Regulation”	Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)
“pile cap”	a reinforced concrete structure built on top of a pile or a group of piles for transmission of loads to support the structure above
“private sector”	a composition of organisations that are not owned or operated by the Government and statutory bodies
“public sector”	a composition of organisations that are owned or operated by the Government or statutory bodies

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## GLOSSARY OF TECHNICAL TERMS

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“Regulated Machine(s)”	means any mobile machine(s) or transportable industrial equipment(s) (other than a vehicle of a class specified in Schedule 1 to the Road Traffic Ordinance (Cap. 374)) that is/are powered by an internal combustion engine with a rated engine power output that is greater than 19 kW but not greater than 560 kW
“schedule of rates”	a set of general regulations and special conditions governing the execution of work and payment for works performed
“SOPL”	Security of Payment Legislation for the Construction Industry, details of which are set out in the section headed “Laws and Regulations” in this prospectus
“SRS”	Subcontractor Registration Scheme (formerly known as Voluntary Subcontractor Registration Scheme) established by the HKCIC
“subcontractor”	in respect of a construction project, a subcontractor appointed by the main contractor or another subcontractor involved in the construction, who generally carries out specific work tasks of the construction
“substructure”	the structure that is below ground level
“superstructure”	the structure that is above the substructure

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains certain forward-looking statements and information relating to our Group that are based on the beliefs of our management as well as assumptions made by and information currently available to our management, as such they are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the nature of, and potential for, future development of our business;
- various business opportunities that we may pursue;
- changes in competitive conditions and our ability to compete under these conditions;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory qualifications required to operate our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- our future debt levels and capital needs;
- our financial conditions and performance; and
- our dividend.

The words “aim”, “anticipate”, “believe”, “can”, “could”, “expect”, “going forward”, “intend”, “may”, “might”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative forms of these words with similar expressions, as they relate to us, are intended to identify a number of these forward looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in the section headed “Risk factors” in this prospectus. One or more of these risks or uncertainties may materialise.

Subject to the requirements of the Listing Rules, our Company does not have any obligation and does not undertake to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or developments or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated,

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## **FORWARD-LOOKING STATEMENTS**

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believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statement set out in this section.

In this prospectus, statements of or references to the intentions of our Company 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.

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## RISK FACTORS

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*Prospective investors should consider carefully all of the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Offer Shares. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group.*

*This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks and you may lose all or part of your investment.*

We believe that there are certain risks involved in our business and operations. They can be classified into: (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to Hong Kong; (iv) risks relating to the Share Offer and our Shares; and (v) risks relating to statements made in this prospectus.

### **RISKS RELATING TO OUR BUSINESS**

**Our revenue is derived from our foundation projects which are not recurring in nature and there is no guarantee that our customers will provide us with new business or that we can secure new contracts**

Our Group is a subcontractor engaged in provision of services with respect to foundation works in Hong Kong. Our foundation works services with our customers were on a project-by-project basis and we do not have any long term commitments with our customers. As at the Latest Practicable Date, we had 32 projects on hand. After completion of the foundation projects on hand, our customers are not obliged to engage us again in subsequent foundation projects and we have to undergo the whole tender or quotation selection process for every new project. As such, our revenue derived from our foundation works is not recurring in nature.

We cannot guarantee that our existing customers will award new foundation projects to us, and there is no assurance that we would be able to maintain our business relationships with our existing customers. In the event that we are unable to attract new customers or secure new foundation projects from our existing customers, our revenue or profit may decrease significantly which may adversely affect our operation and financial results.

### **Our Group had a concentration of customers during the Track Record Period**

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our five largest customers during the Track Record Period accounted for approximately 93.6%, 98.1%, 82.0% and 83.7% of our revenue, respectively; whereas New Concepts Group,



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## RISK FACTORS

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our largest customer during the Track Record Period, accounted for approximately 48.0%, 55.7%, 5.9% and 11.0% of our total revenue, respectively. These major customers may continue to account for similar or even higher proportion of our total revenue in the future.

In light of the above, we face the risks associated with having a concentration of customers in the future. Furthermore, we generally do not enter into long-term contracts with our major customers. There is no assurance that any of our major customers will continue to engage us as they do currently, or engage us at the same contracting rate.

If any of our major customers reduces the number of contracts placed with us significantly or ceases its business relationships with us, we cannot assure you that we would be able to find new customers to engage us on comparable terms, or at all, in which case our business, operating results and financial condition may be materially and adversely affected. In the event of defaulting payments by any of our major customers, we may be unable to recover significant amounts of receivables and thus our cash flows, business and financial position could be adversely affected.

### **Inaccurate estimation of project time and cost when determining the price of our tender for foundation projects may adversely affect our operation and financial results**

Our foundation projects, in particular public sector projects, are normally awarded through a competitive tendering process. We determine a tender price by estimating the construction costs under the contract duration as specified in the tender invitation documents based on our cost estimate plus a certain markup margin. For details of the factors we take into account when making our cost estimate, please refer to the section headed “Business – Pricing strategy” in this prospectus. However, the actual time and costs incurred by us may be adversely affected by various factors, including: (i) unfavorable weather conditions; (ii) unexpected geological conditions in the underground of the work sites; (iii) difficulties in retaining necessary number of workers with requisite skills; (iv) disputes with customers, suppliers, subcontractors and other project parties; (v) receipt of variation orders from our customers; and (vi) other unforeseen circumstances. Significant deviation in any of these factors or other relevant factors from our expectation may lead to delay in completion or costs overrun by us. There is no assurance that the actual time and costs incurred by us would match our initial estimate and such delays, cost overruns or mismatch of actual time and costs with our estimates may reduce our profitability or expose us to litigation or claims from customers in case of delays.

If our markup margin are set to cater for the abovementioned unfavourable circumstances, our tender may become uncompetitive. There is no assurance that we will always be able to price our tender competitively. If we fail to do so, our customers may choose our competitors, thereby resulting in a decrease in the number of construction projects awarded to us. This would adversely affect our operations and financial results. Meanwhile, if the markup margin set by us is too low, we may not be able to cover the additional financial cost of any unfavourable circumstances during project implementation. Our profitability in the construction project would hence be adversely and materially affected.

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## RISK FACTORS

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### **Our Group may not maintain or increase our success rate of the projects tendered**

Our Group's tender success rate on project tendering for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017 was approximately 8.6%, 5.3%, 10.4% and 14.7%, respectively. There are a number of factors in determining the success rate on project tendering, including, the tenders submitted by our competitors or the number of tenders submitted by our Group each year. As the contracts awarded are on a project-by-project basis, there is a risk that our Group may not be awarded with new contracts by our customers upon the completion of the current contracts. Hence, there is no guarantee that our Group will be able to maintain or increase our success rate of attaining the engagement for projects tendered and quoted in the future. In the event that our Group is unable to maintain our success rate on project tendering, our Group's revenue and operation may be materially and adversely impacted.

### **Our Group may be exposed to delays and/or defaults of progress payments and/or retention monies by our customers which would adversely affect our cash flows or financial results**

We do not generally receive any prepayment sums from our customers for our foundation projects. However, we have to incur various costs, including salary payments to our workers, and progress payment to our subcontractors after the commencement of our construction projects. As such, we are subject to credit risks of our customers and our liquidity is dependent on our customers promptly making progress payments and release of retention monies owned to us. For details of the mechanisms of the progress payment and retention money, please refer to the section headed "Business – Operation flow" in this prospectus.

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the trade and retention receivables amounted to approximately HK\$45.1 million, HK\$53.0 million, HK\$75.2 million and HK\$46.9 million, respectively; whereas the respective trade and retention receivables accounted for approximately 54.0%, 52.7%, 50.0% and 36.1% of the total current assets, respectively.

Additionally, the average trade receivable turnover days were approximately 30.9 days, 18.3 days, 38.4 days and 46.3 days for the each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively. For details of the fluctuations in our trade and retention receivables from customers and trade receivable turnover days, please refer to the section headed "Financial Information – Trade and other receivables analysis" in this prospectus. There is no assurance that the financial position of our customers will remain healthy in the future. If our customers experience any financial distress or are unable to settle their payments due to us in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected.

As at 30 November 2017, (i) our gross amount due from customer for contract works amounted to HK\$51.8 million; and (ii) out of our trade receivable of HK\$22.0 million, HK\$10.6 million had remained outstanding for more than 90 days. There is no guarantee that we can bill and/or recover these amounts from our customers in full. Furthermore, disputes may arise between us and our contractor as to the value of work done in a particular period, and hence, the progress payment that we are entitled. There is also a possibility that we may take longer than the trade receivable turnover days to collect payments. This will negatively affect our cash flows and financial performance.

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## RISK FACTORS

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### **Potential mismatch in time between receipt of progress payments from our customers, and payments to our suppliers and subcontractors may adversely affect our cash flows**

Our Group engage subcontractors from time to time as we delegate specific work tasks to them. We need to purchase diesels for our construction machinery to complete our foundation works. Also, we need to incur repair and maintenance costs for our machinery fleet. Furthermore, we may be required to purchase construction materials such as ready-mix concrete or steel products for the projects. As such, we would record significant cash outflows in the event that we take up too many projects at a particular period of time.

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the trade payables amounted to approximately HK\$20.2 million, HK\$26.0 million, HK\$49.4 million and HK\$26.1 million, respectively; whereas the respective trade payables accounted for approximately 23.0%, 32.0%, 48.1% and 34.8% of the total current liabilities, respectively. In addition, the turnover days of trade payable were approximately 46.6 days, 24.0 days, 48.5 days and 66.3 days for the each of three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively. For details of the fluctuations in our trade payables to our suppliers and the trade payable turnover days, please refer to the section headed “Financial information – Trade and other payables analysis” in this prospectus.

We rely on cash inflows from our customers to meet our payment obligations to our suppliers and subcontractors. As discussed in the preceding paragraph above, our cash inflows are dependent on prompt settlement of progress payments, and timely release of retention monies by our customers. Nevertheless, even if our customers settle such payments on time and in full, there can be no assurance that we would not experience any significant cash flow mismatch. Furthermore, there can be no assurance that our cash flow management measures could function properly or at all. If there were any significant and substantial cash flow mismatch, we might have to raise funds by resorting to equity financing and/or banking facilities in order to meet our payment obligations in full and on time.

### **Failure to acquire suitable machinery to cope with changing customer demands and specifications may adversely affect our market competitiveness**

Our capacity to carry out works for our customers depends on, among others, the availability of our machinery. For the details relating to our machinery, please refer to the section headed “Business – Our machinery fleet” in this prospectus. As discussed in the section headed “Future plan and use of proceeds” in this prospectus, we intend to apply approximately HK\$40.0 million, representing approximately 61.5% of the net proceeds from the Share Offer, for the purchase of machineries and equipment comprising excavators and crawler cranes required for our foundation works. If we fail to stay abreast of market trends and relevant laws and regulations and acquire suitable machinery to cope with changing customer demands and specifications, our overall competitiveness and financial position and operation results may be adversely affected.

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## RISK FACTORS

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**If we fail to complete our foundation works on time or at all, we may be liable to customers for breach of contract and be required to pay liquidated damages or other penalties**

In some projects, our contracts may set out the due date of the foundation works. If we fail to complete the works on or before the due date, we may be required to compensate our customers according to the terms stated in our contracts, unless they agree to grant us time extension to complete the remaining works.

Our foundation works may be disrupted or delayed due to circumstances that are beyond our expectation or control, including but not limited to: (i) unexpected geological conditions in the underground of the work sites; (ii) unfavourable weather conditions; and/or (iii) other construction risks such as work injuries and disputes with customers, suppliers, subcontractors and other project parties.

As such, we cannot guarantee that we will be able to complete every project on time or at all, nor can we assure you that our customers would grant us sufficient time extensions to complete the outstanding works. If we fail to complete our construction projects on time, significant liquidated damages or other penalties may be imposed upon us, which would in turn adversely affect our profitability and operating results.

**Our Group may be subject to claims in relation to defects of our foundation works, which may result in further costs to make good the defects, and/or deduction of the retention monies to be released and/or claims from our customers against us**

As a subcontractor, we may be subjected to claims from our customers in relation to defects of our foundation works. In general, contracts with our customers would require us to provide a defect liability period, during which we will remain responsible for remedying any defects or imperfections discovered with respect to our works done. Such remedial actions may range from maintenance to minor repair works. In the event that substantive remedial actions were required, we may have to incur significant time and costs or subject to claims from our customers against us. If we fail to make good the defects as required, our customers may reduce or forfeit the retention monies withheld from us and further claim damages from us.

**Our historical growth rate, revenue and profit margin may not be indicative of our future growth rate, revenue and profit margin**

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our revenue was approximately HK\$259.4 million, HK\$502.1 million, HK\$396.9 million and HK\$206.1 million, respectively. For the same period, our profit and total comprehensive income was approximately HK\$17.8 million, HK\$22.2 million, HK\$25.8 million and HK\$8.0 million, respectively. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our gross profit was approximately HK\$26.8 million, HK\$29.1 million, HK\$40.5 million and HK\$24.5 million, respectively; whereas our gross profit margin

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## RISK FACTORS

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for the same period was approximately 10.3%, 5.8%, 10.2% and 11.9%, respectively. For discussion of our results of operation, please refer to the section headed “Financial Information – Period to period comparison of results of operation” in this prospectus.

There is inherent risk in using such historical financial information of ours to project or estimate our financial performance in the future, as they only reflect our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue and profit margin for various reasons, including, intensification of competition among foundation works subcontractors, aggravation in labour shortage, and other unforeseen factors such as adverse weather and geological conditions, any of which may delay the completion of our projects, reduce the number of projects awarded to us, and/or reduce the profit margin of our projects.

In addition, our Group recorded gain on disposal of property, plant and equipment of HK\$0.4 million, HK\$4.4 million, HK\$3.6 million and HK\$1.8 million for each of the three years ended 31 March 2017 and for the eight months ended 30 November 2017, respectively. Such gain is not recurring in nature and there is no guarantee that we can realise any gain for the disposal of property, plant and equipment in the future.

We cannot assure you that we will be able to achieve the same performance as we did during the Track Record Period. Investors should not solely rely on our historical financial information as an indication of our future financial or operating performance.

**We are at risk of the occurrence of accidents causing injury to our or our subcontractors’ employee. Our performance may be adversely affected by disputes and litigation arising out of such accidents**

It is not uncommon in our industry to have occurrence of accidents causing injury to our or our subcontractors’ employees, which may subsequently give rise to the corresponding employees’ compensation claims and common law personal injury claims. We may be in disputes with the injured persons in respect of our responsibilities in connection with the accidents for various reasons. Such disputes may be in connection with contributory negligence of such injured person or whether the accident occurred during his/her employment with us or our respective subcontractor. During the Track Record Period and up to the Latest Practicable Date, we recorded 56 accidents (including one accident caused by striking against moving object and resulted in a fatal injury in October 2017) which gave rise or may give rise to potential employees’ compensation claims and personal injury claims. Please refer to the section headed “Business – Occupational health and safety” in this prospectus for further information on occurrence of accidents during the Track Record Period and up to the Latest Practicable Date.

The handling of accidents and subsequent claims, litigations and other legal proceedings may sometimes involve a high degree of our management’s attention and input. Handling of litigations and legal proceedings can be both costly and time-consuming, and may significantly

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## RISK FACTORS

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divert the efforts and resources of our management. In addition, should any claims, litigation and legal proceedings against us fall outside the scope and/or limit of our insurance coverage, our financial position may be adversely affected.

**We were involved in nine ongoing legal proceedings against us as related to employee compensation and/or personal injury claims at the Latest Practicable Date and are subject to certain potential claims. If we were found liable, we might have to make compensations, incur significant financial loss, and suffer damage to our reputation**

As at the Latest Practicable Date, we were involved in nine ongoing legal proceedings related to employee compensation and/or personal injury claims. We were also subject to certain potential litigations, particularly related to a fatal incident happened during the Track Record Period. For details, please refer to the section headed “Business – Litigation and potential claims” of this prospectus.

If any claims against us fall outside the scope and/or limit of our insurance coverage, our financial position may be adversely affected. Regardless of the merits of any outstanding and potential claims, we need to divert management resources and incur extra costs to handle these claims, which could affect our corporate image and reputation in the construction industry if they are published by the press.

There is no assurance that the outcomes of the above proceedings would be favourable to us. If we were liable to make substantial amounts of damages, it would result in significant financial loss, damages to our reputation in the construction industry, and adversely affect our financial conditions. In addition, we may have to incur significant expenditures in defending ourselves in such proceedings.

**We may be involved in construction and/or labour disputes, legal and other proceedings arising out of our operations from time to time and may face significant legal liabilities as a result**

We may be involved in disputes with our customers, suppliers, subcontractors and other project parties from time to time in relation to various matters including delay in completion of our foundation works, complaints about the quality of completed works and damages to construction machinery rented to our customers.

Furthermore, disputes may arise between us and the main contractor or employer as to the value of work properly done in a particular period and the progress payment that we are entitled to in the relevant period. In some projects, the contract(s) may contain a variation clause which allows the employers of the construction project and/or the main contractors to vary the subcontract works. The value of such variation works is generally ascertained with reference to the rates and prices specified in the contract(s) for the like or analogous work and/or the prevailing market rate. In the event that we disagree with such valuation results, contractual disputes with our customers may arise.

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## RISK FACTORS

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There is no assurance that we may be able to resolve every occasion of disputes amicably by way of negotiation and/or mediation with the relevant parties. If we fail to do so, it may lead to legal and other proceedings against us, and consequently we may have to incur extensive expenditure in defending ourselves in such actions. If we fail to obtain favourable outcome in such proceedings, we may be liable to pay significant sums of damages which may adversely affect our operations and financial results.

**Our operations are exposed to risks customary to the construction industry and our existing insurance coverage may not provide our Group with adequate protection against these risks**

Our insurance may not fully cover all the potential loss and claims arising from our operation. Typical claims such as accidents and personal injuries suffered by workers retained by us and our subcontractors are generally covered by the insurance policy maintained by the main contractors of the construction projects. As to our construction machinery deployed in the work sites, we are generally required to maintain our own insurance policy. For details, please refer to the section headed “Business – Insurance” in this prospectus.

Nevertheless, we and/or our officers (as the case may be) may be exposed to claims in respect of matters that are not covered by the insurance policies we maintained. In addition, as to the insurance policies we maintained, there may be circumstances (such as fraud, gross negligence, natural disasters and acts of God) in which certain loss and claims would not be covered adequately, or at all.

In the event that we experience substantial loss, damages or claims arising from our operation at work sites which are not covered by the insurance policies, we may have to incur tremendous expenditure in making compensations, which would adversely affect our operating results and financial position.

With respect to loss and claims which are covered by our insurance policies, it may be a difficult and lengthy process to recover such losses from our insurers. In addition, we may not be able to recover the full amount of such loss from the insurer. We cannot assure you that our policies would be sufficient to cover all potential loss, regardless of the cause, or that we can recover such losses from our insurers.

**We rely on key management personnel**

Our success and growth is, to a large extent, attributable to the continued commitment of our executive Directors, our senior management team and our capability to identify, hire, retain suitable and qualified employees, including management personnel with the necessary industry expertise as described in the section headed “Directors, senior management and employees”. Our Directors and members of senior management, in particular, our executive Directors, are important to us as they have extensive experience and business connections in the construction



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## RISK FACTORS

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industry in Hong Kong. Any unanticipated departure of our executive Directors and/or our senior management team without appropriate replacement may have a material adverse impact on our business operations and profitability.

**Our Group's foundation works are labour intensive. If we or our subcontractors experience any shortage of labour, industrial actions, strikes or material increase in labour costs, our operation and financial results would be adversely affected**

We rely on a stable supply of labour to carry out our construction works. In particular, we require a large number of construction workers with various expertise and skills, such as machine operators and construction vehicle drivers. However, according to the CIC Report, aging workers and labour shortages have been viewed as major threats to Hong Kong's foundation and general building works industry. There were only 202 bored pile operators, 170 bulldozer operators, and 5,158 excavator operators with valid registration in Hong Kong as of 31 December 2017. Also, some workers may even be attracted to take positions in Macau and mainland China instead, receiving better offers compared with local companies, which leaves the industry with an even larger gap to fill.

In view of the current situation in the labour market, we cannot assure you that we will not experience any material shortage of labour, industrial actions, strikes or material increase in labour costs in the future, in which case we may need to offer better remuneration packages and other benefits to attract and retain key personnel and skilled labour. There can be no assurance that we will possess sufficient resources for such purpose. If we cannot retain or recruit sufficient number of skilled workers to handle our construction projects or rental services in a timely manner, we may experience delay in project completion and our ability to handle future construction projects or rental services would be significantly reduced consequently.

**There is no assurance that we will pay dividends in the future**

There is no assurance that our Group will declare dividends. The declaration, payment and amount of any future dividends are subject to the discretion of our Board depending on, among other things, our Group's earnings, financial condition and cash requirements and the provisions governing the declaration and distribution as contained in the Articles of Association, applicable laws and other relevant factors. For details of our dividend, please refer to the section headed "Financial Information – Dividend" in this prospectus. We cannot assure investors when or whether we will pay dividends in the future.

**Our landlords may terminate the tenancy agreements with us and we may have to relocate for alternatives**

We have entered into the two tenancy agreements for our office and warehouse. In the event that we are unable to secure office space or warehouse facilities for our construction machineries and other vehicles, or that our rental fleet continues to expand and/or if there is a



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## **RISK FACTORS**

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sudden reduction in demand for our rental fleet, we may need to secure alternative and/or further storage space. As storage facilities and parking spaces have to be located on premises which can meet permitted land use requirements, such premises may not be immediately available when needed.

**We plan to expand our capacity by acquiring machinery, which may result in an increase in depreciation expenses, machine operator costs, repair and maintenance costs and cash flow used in investing activities and may adversely affect our operating results and financial position**

We rely heavily on the use of machinery, including excavators, air compressors, rollers and loaders. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our Group acquired machinery of approximately HK\$13.8 million, HK\$17.7 million, HK\$5.7 million and HK\$4.1 million, respectively. To expand our working capacity and scale, we currently intend to apply approximately 61.5% of the net proceeds from the Share Offer i.e. approximately HK\$40.0 million to expand our fleet of machinery. As a result of the acquisition of machinery by the use of such net proceeds, our cash flow used in investing activities is expected to increase by approximately HK\$12.5 million for the year ending 31 March 2019. Our Directors further estimate that assuming all other things remain unchanged, our depreciation expenses, machine operator costs and repair and maintenance costs will altogether increase and our gross profit will reduce by approximately HK\$3.1 million, HK\$7.6 million and HK\$11.2 million for each of the three years ending 31 March 2021, respectively. Accordingly, our operating results and financial position may be adversely affected.

**We recorded net current liabilities as at 31 March 2015**

We recorded net current liabilities as at 31 March 2015 and we may be expose to liquidity risk if our Group experiences net current liabilities in the future. Our Group recorded net current liabilities of approximately HK\$4.5 million as at 31 March 2015 and net current assets of approximately HK\$19.4 million, HK\$47.5 million and HK\$55.2 million as at 31 March 2016, 31 March 2017 and 30 November 2017, respectively. The net current liabilities of approximately HK\$4.5 million as at 31 March 2015 was mainly attributable to the amount due to a director being approximately HK\$21.7 million.

There is no assurance that our Group will not experience net current liabilities position in the future. Our Group may not have sufficient working capital to meet our Group's current liabilities or expand our Group's operations as anticipated. In such circumstances, our Group's liquidity, business operations, financial condition and prospects may be materially and adversely affected.

**We had negative operating cash flow for the eight months ended 30 November 2017**

We had negative cash flow from operating activities of approximately HK\$11.2 million for the eight months ended 30 November 2017, which was mainly attributable to the profit before tax for the period of approximately HK\$11.1 million, mainly adjusted for movements in working

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capital of approximately HK\$25.7 million. The decrease in working capital was mainly due to (i) the decrease in our trade and other receivables of approximately HK\$18.7 million; (ii) the decrease in our trade and other payables of approximately HK\$24.9 million mainly in relation to the completion of our Project 30 and Project 47; and (iii) the increase in amounts due from customers for contract work of approximately HK\$17.7 million. Although we seek to manage our working capital, we cannot assure you that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. As a result, there could be a period during which we experience net cash outflow.

During the Track Record Period, we mainly relied on internal resources generated from our operation and debt financing to finance our business. For details, please refer to the section headed “Financial information – Liquidity and capital resource” of this prospectus. Negative operating cash flow requires our Group to obtain sufficient external financing to meet our financing needs and obligations. If we were unable to do so, we will be in default of our payment obligations and may not be able to expand our business. Thus, our business, financial position and results of operation may be adversely affected.

### **Our Group’s operations may be affected by inclement weather conditions and are subject to other construction risks**

Most of our business operations are conducted outdoors and are susceptible to inclement weather. If the inclement weather persists or natural disasters occur, we may be prohibited from performing work at our construction sites, and as a result, we may not be able to meet the specified time schedule. If we have to halt operations during inclement weather or natural disasters, we may continue to incur operating expenses such as labour costs. If our project is delayed and the terms of the contract do not accommodate for such delays or our customers do not grant us with a sufficient time extension for the completion, we may be liable to pay for any liquidated damages to our customers according to the relevant contract terms, which will adversely affect our financial results.

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

#### **There is no guarantee that the Technical Circular or other similar administrative tools issued by the Government will not impose any negative impact on our Group**

Under the Technical Circular, certain exempted Regulated Machines comprising generators, air compressors, excavators and loader, under the NRMM Regulation in Hong Kong will be phased out progressively from 1 June 2015 and will not be allowed to be engaged in any new capital works contracts of public works including design and build contracts, with an estimated contract value exceeding HK\$200 million and tenders invited by 1 June 2019. For details of the NRMM Regulation and the Technical Circular, please refer to the section headed “Laws and Regulations” in this prospectus.

The Technical Circular has been adopted by relevant works departments of the Government and is related directly to the contractual terms in the contracts between the Government and the main contractors in the construction industry. It is neither binding nor regulatory to our Group’s

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business operations and any breach of its clauses shall be a breach of contractual term between the respective Government department and the respective main contractor of which our Group is not a party. In view of such, our Directors consider that the Technical Circular will not have a direct impact to the existing public sector projects that our Group has been involved in. For illustration, our public sector projects accounted for approximately 24.6%, 11.2%, 27.5% and 67.2% of our Group's total revenue for each of the three years ended 31 March 2017 and eight months ended 30 November 2017, respectively. We plan to spend approximately HK\$40.0 million to acquire approved NRMMs to enhance our machinery fleet. The impact of such acquisitions on the depreciation charges for each of the three years ending 31 March 2021 amounts to approximately HK\$1.7 million, HK\$4.8 million and HK\$7.6 million, respectively. Nonetheless, we cannot guarantee that the Government will not extend the scope or interpretation of the Technical Circular or issue other similar administrative tools which will cause any potential impact to our business operation, if there is such a case, our business, financial position, results of operations and prospects may be materially and adversely affected.

### **Changes in existing laws, regulations and Government policies, including the introduction of more stringent laws and regulations on environment protection and labour safety may cause us to incur substantial additional expenditure**

Many aspects of our business operations 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 construction industry may change from time to time, and we may not be able to respond to such changes in a timely manner. Such changes may also increase our costs and burden for compliance, which may materially and adversely affect our business, financial condition and results of operations. For example, if there are any change to and/or imposition of requirements for qualification in the construction 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 operations will be materially and adversely affected.

### **We are subject to environmental liability**

Our business in Hong Kong is subject to the environmental regulations and guidelines issued by the Hong Kong Government, which apply to the operation of all construction projects in Hong Kong. Such regulations and guidelines may be revised by the Government from time to time to reflect the latest environmental needs. Any changes to such regulations and guidelines may increase our cost and burden in complying with them.

### **Market conditions and trends in the construction industry and overall economy will affect our performance**

All of our operations and management were located in Hong Kong during the Track Record Period. The continued availability of large construction projects will affect the future growth and level of profitability of the construction industry in Hong Kong. The nature, extent and timing of such projects will, however, be determined by a variety of factors such as the land supply in Hong Kong, public housing policy, political filibustering, the Government's budgets, the

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## RISK FACTORS

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investment of property developers and the general conditions and prospects of Hong Kong's economy. They may affect the availability of construction projects from the public sector, private sector or other institutional bodies.

Other than the Government's public spending, other factors can affect the construction industry as well, such as cyclical trends in the economy as a whole, fluctuations in interest rates and the availability of new projects in the private sector. If there is any recession in Hong Kong, deflation or any changes in Hong Kong's currency policy, or if the demand for foundation works in Hong Kong deteriorates, our operations and profitability could be adversely affected.

### **We operate in a highly competitive market**

The construction industry is highly competitive. There are a significant number of industry players who provide similar services to ours. Some of our competitors may have certain advantages, including stronger brand names, greater access to capital, longer operating history, longer and more established relationship with main contractors, and greater marketing and other forms of resources. Furthermore, new participants may enter the industry as they wish provided that they possess all the relevant licences and qualifications required.

If the competition among foundation works subcontractors intensifies, we may be under pressure to reduce our quotation or tender price, which would have an adverse impact on our project profitability and operating results. We cannot guarantee that we can cope with the enhanced competition in the future or that we can maintain our current position in the industry.

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

#### **The state of economy in Hong Kong may adversely affect our performance and financial condition**

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

#### **The state of political environment in Hong Kong may adversely affect our performance and financial condition**

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of "one country, two systems" according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the "one country, two systems" principle and the level of autonomy currently in place at the moment. Since all of

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our operations are based in Hong Kong, any change of such political arrangements may pose immediate threat to the stability of the economy in Hong Kong, thereby directly and adversely affecting our results of operations and financial positions.

### **RISKS RELATING TO THE SHARE OFFER AND OUR SHARES**

#### **There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained**

Prior to the Share Offer, no public market for our Shares existed. Following the completion of the Share Offer, the Main Board will be the only market on which the Shares will be publicly traded. We cannot assure our investors that an active trading market for our Shares will be developed or be sustained after the Share Offer. In addition, we cannot assure our investors that our Shares will be traded in the public market subsequent to the Share Offer at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by the Price Determination Agreement, and may not be indicative of the market price of the Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares could be materially and adversely affected.

#### **The trading price and volume of our Shares may be volatile, which could result in substantial loss to our investors**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of our Shares; changes in securities analysts' (if any) estimates of our financial performance; investors' perceptions of our Group and the general investment environment; changes in laws, regulations and taxation systems which affect our operations; and the general market conditions of the securities markets in Hong Kong. In particular, the trading price performance of our competitors whose securities are listed on the Stock Exchange may affect the trading price of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. The market price of our Shares may change unexpectedly due to factors such as variations in our revenue, net income and cash flow; the success or failure of our efforts in implementing business and growth strategies; and our involvement in material litigation as well as recruitment or departure of key personnel. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

As there will be a gap of several days between the pricing and the trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins. The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will

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## RISK FACTORS

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not commence trading on the Stock Exchange until the Listing Date. As a result, investors may not be able to sell or otherwise deal in our Shares during the period between the Price Determination Date and the Listing Date.

Accordingly, Shareholders are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**Investors for our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future**

The Offer Price is higher than the net tangible asset value per Share. Hence, investors of our Offer Shares will experience an immediate dilution in the unaudited pro forma adjusted net tangible asset value to approximately HK\$0.12 and HK\$0.13 per Share based on the Offer Price at HK\$0.30 and HK\$0.34 per Offer Share (being the lowest and highest point of the indicative Offer Price range), respectively.

We may need to raise additional funds due to changes in business conditions, or to finance our future plans, whether in relation to our existing operations or any future acquisitions. If additional funds are raised by way of issuing Shares or equity-linked securities other than on a pro-rata basis to existing Shareholders, our existing Shareholders' shareholding may be reduced, the earnings per Share and the net tangible asset value per Shares would diminish and/or such newly issued securities may have rights, preferences and privileges superior to the Shares of our existing Shareholders.

**Future disposal or perceived disposal of a substantial number of Shares of our Controlling Shareholders in the public market could materially and adversely affect the prevailing market price of our Shares**

Disposal of substantial amounts of our Shares in the public market after the completion of the Share Offer, or the perception of such disposal could adversely affect the market price of our Shares and materially impair our future ability to raise capital through offerings of new Shares. There is no assurance that our Controlling Shareholders would not dispose of their shareholdings. Any significant disposal of our Shares by any of the Controlling Shareholders could materially affect the prevailing market price of our Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of our Shares.

**The interest of our Controlling Shareholders may not always coincide with the interest of our Group and those of our other Shareholders**

Our Controlling Shareholders have significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires by virtue of their shareholding in our Group. The interests of our Controlling Shareholders may not always coincide with the best interests of other

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## RISK FACTORS

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Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the best interests of other Shareholders, those other Shareholders' interest may be adversely affected as a result.

**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, among other things, the Articles of Association, 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 Shareholders is set out in Appendix IV to this prospectus.

### **RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS**

**Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding us and the Share Offer**

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the Share Offer. Prior to the publication of this prospectus, there may be press and media coverage regarding the Share Offer and us. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. 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 inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and our investors should not rely on such information.

**Certain facts, forecast and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable**

Certain facts, forecast and other statistics in this prospectus are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or



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## RISK FACTORS

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misleading. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Furthermore, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

### **Forward-looking statements contained in this prospectus are subject to risks and uncertainties**

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters. The words “aim”, “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “intend”, “may”, “might”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in the section headed “Risk factors” in this prospectus. Accordingly, such statements are not a guarantee of future performance and investors should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.



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**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION  
FROM STRICT COMPLIANCE WITH THE COMPANIES  
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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In preparation for the Listing, we have applied for the following waivers from strict compliance with certain provisions of the Listing Rules from the Stock Exchange and a certificate of exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC:

**CONTINUING CONNECTED TRANSACTION**

After the Listing, certain transactions with connected persons that are expected to continue will constitute as a non-exempt continuing connected transaction for our Company under the Listing Rules. The transaction under the agreement is subject to report, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, and our Company has applied for a waiver from strict compliance with the applicable requirements under Rule 14A.105 of the Listing Rules and the Stock Exchange has agreed to grant a waiver from strict compliance with the announcement, circular, and independent Shareholders' approval requirements set forth in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. For further information on such transaction, please refer to the section headed "Connected transactions" in this prospectus.

**WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES  
AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1) IN  
RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE  
THIRD SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS  
PROVISIONS) ORDINANCE**

Rule 4.04(1) of the Listing Rules requires a listing applicant to include in the prospectus the consolidated results of the listing group in respect of each of the three financial years immediately preceding the issue of the prospectus or such shorter period as may be acceptable to the Stock Exchange.

Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance provides that, subject to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, it shall not be lawful for any person to issue, circulate or distribute in Hong Kong any prospectus offering for subscription or purchase shares in a company incorporated outside Hong Kong unless, among other things, the prospectus states the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and sets out the reports specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance ("Paragraph 27") requires the listing applicant to include in the prospectus a statement as to, among others, the gross trading income or sales turnover (as

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**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION  
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may be appropriate) of the listing applicant during each of the three financial years immediately preceding the issue of the prospectus, including an explanation of the method used for the computation of such income or turnover, and a reasonable break-down between the more important trading activities.

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (“**Paragraph 31**”) requires the listing applicant to include in the prospectus a report by its auditors with respect to, among others, its profits and losses and assets and liabilities of the listing applicant in respect of each of the three financial years immediately preceding the issue of the prospectus.

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

We have adopted 31 March as our financial year end date. This prospectus contains the audited financial results of our Company for the three years ended 31 March 2017 and the eight months ended 30 November 2017, but does not include the financial results of our Company in respect of the full year immediately preceding the proposed date of issue of this prospectus, being the full year ended 31 March 2018, as required under Rule 4.04(1) of the Listing Rules, Paragraph 27 and Paragraph 31. In light of that, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 4.04(1) of the Listing Rules, by permitting the non-inclusion of the financial results of our Company for the full year ended 31 March 2018, subject to the following conditions:

- (a) this prospectus will be issued on or before 31 May 2018 and the Shares will be listed on the Stock Exchange on or before 30 June 2018;
- (b) our Company has obtained a certificate of exemption from the SFC on strict compliance with the requirements under Paragraph 27 and Paragraph 31;
- (c) a profit estimate for the year ended 31 March 2018 (which must comply with Rules 11.17 to 11.19 of the Listing Rules) is included in this prospectus; and
- (d) a Directors’ statement is included in this prospectus that, save for the listing expenses, there is no material adverse change to its financial and trading positions or prospect with specific reference to the trading results from the end of the stub period to the latest financial year end.

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**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION  
FROM STRICT COMPLIANCE WITH THE COMPANIES  
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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We have also applied for, and the SFC has granted us, a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with Paragraph 27 and Paragraph 31 on the conditions that:

- (a) the particulars of the exemption are set out in this prospectus; and
- (b) this prospectus will be issued on or before 31 May 2018 and the Shares will be listed on the Stock Exchange on or before 30 June 2018.

The applications to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with Paragraph 27 and Paragraph 31 were made on grounds that the strict compliance with the requirements thereunder would be unduly burdensome and the waiver and exemption thereof would not prejudice the interest of the investing public for the following reasons:

- (a) there would not be sufficient time for us and the Reporting Accountants to complete the audit work on the financial information for the full year ended 31 March 2018 for inclusion in this prospectus, which shall be issued on or about 31 May 2018. If the financial information is required to be audited up to 31 March 2018, we and the Reporting Accountants would have to undertake a considerable amount of work, costs and expenses to prepare, update and finalise the Accountants' Report and the relevant sections of this prospectus will also need to be updated to cover such additional period within a short period of time;
- (b) our Directors and the Sole Sponsor are of the view that the benefits of such additional work to be done by the Reporting Accountants to the potential investors would not justify the additional amount of work, costs and expenses as (i) the Accountants' Report covering the three years ended 31 March 2017 and the eight months ended 30 November 2017, together with the profit estimate of our Group for the year ended 31 March 2018 as set out in Appendix III to this prospectus (which complies with Rules 11.17 to 11.19 of the Listing Rules) already provide potential investors with adequate and reasonably up-to-date information in the circumstances to form a view on the track record and earnings trend of our Group; and (ii) all information that is necessary for the potential investors to make an informed assessment of the activities, assets and liabilities, financial position, management and prospect of our Group has been included in this prospectus; and
- (c) our Directors and the Sole Sponsor confirmed that they have performed sufficient due diligence to ensure that, save for the listing expenses, up to the date of this prospectus, there has been no material adverse change in our financial and trading positions or prospects since 30 November 2017 and there is no event since 30 November 2017 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, the profit estimate of our

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**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION  
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Group for the year ended 31 March 2018 as included in Appendix III to this prospectus and other parts of this prospectus.

Our Directors further confirmed:

- (a) that all information necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospect of our Company has been included in this prospectus and that, as such, the waiver granted by the Stock Exchange and the certificate of exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and Paragraph 27 and Paragraph 31, respectively, will not prejudice the interest of the investing public; and
- (b) that our Company will comply with Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of annual results and annual report for the year ended 31 March 2018.

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

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

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information with regard to our Group.

Our 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 materials respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **PUBLIC OFFER, UNDERWRITING AND INFORMATION ON THE SHARE OFFER**

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Share Offer or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Share Offer.

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriter under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Sole Bookrunner (for itself and on behalf of the Underwriters) agreeing on the Offer Price. A Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around 29 May 2018, subject to the Offer Price being agreed. The Share Offer is managed by the Sole Bookrunner.

If, for any reason, the Offer Price is not agreed among us and the Sole Bookrunner (for itself and on behalf of the Underwriters), the Share Offer will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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

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

The procedures for applying for Public Offer Shares are set out in the section entitled “How to apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE SHARE OFFER**

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

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

Each person acquiring the Public Offer Shares under the Public Offer will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus and/or Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or Application Forms 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. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus pursuant to the Share Offer (including Shares to be issued pursuant to the Capitalisation Issue and Shares which may fall to be issued upon the exercise of any options that may be granted under the Share Option Scheme).

Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

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

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

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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.

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

Dealings in the Shares on the Stock Exchange are expected to commence on 7 June 2018. The Shares will be traded in board lots of 10,000 Shares each. The stock code of the Shares will be 1757.

### **ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

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.

### **REGISTER OF MEMBERS AND STAMP DUTY**

Our Company's principal share register will be maintained by our principal share registrar, Estera Trust (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong Branch Share Register will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands.

All Offer Shares will be registered on the Hong Kong branch share register of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong Branch Share Register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the Cayman principal share register



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

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and Hong Kong branch share register of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of our Company, or in the case of joint Shareholders, to the registered address of that one whose name stands first in the register in respect of joint holding, or to such person and to such address as the holder or joint holders may in writing direct.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of our Group, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

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

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

### **STRUCTURE OF THE OFFER SHARES**

Details of the structure and conditions of the Share Offer, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus.

### **ROUNDING**

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

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Adjustment Options.

### **LANGUAGE TRANSLATION**

The English language version of this prospectus has been translated into the Chinese language and English and Chinese versions of this prospectus are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall govern.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### CURRENCY TRANSLATIONS

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

US\$1.00: HK\$7.78

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

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Chan Siu Cheong (陳紹昌)	Flat F, 7/F., Block 3 Granville Garden, 18 Pik Tin Street Tai Wai, New Territories Hong Kong	Chinese
Mr. Sin Ka Pong (單家邦)	1C, Kei Ling Ha Sang Wai Sai Sha Road Sai Kung, Kowloon Hong Kong	Australian
<i>Independent non-executive Directors</i>		
Mr. Ho Chi Wai (何志威)	Flat D, 2/F., Block 12, Grand Del Sol 100 Fung Cheung Road Yuen Long, New Territories Hong Kong	Chinese
Mr. Cheung Kwok Yan Wilfred (張國仁)	Flat D, 9/F, Tower 2 Ultima 23 Fat Kwong Street Ho Man Tin, Kowloon Hong Kong	Chinese
Mr. Lau Leong Ho (劉亮豪)	1/F., 95K Wong Nai Tun Tsuen Yuen Long, New Territories Hong Kong	Chinese

For further information, please refer to the section headed “Directors, senior management and employees” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

#### **Dakin Capital Limited**

Room 2701, Admiralty Centre  
Tower 1, 18 Harcourt Road  
Admiralty  
Hong Kong  
*(A licensed corporation carrying on Type 6  
(advising on corporate finance)  
regulated activity under the SFO)*

#### Sole Bookrunner and Sole Lead Manager

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

Room 2511, 25/F  
Cosco Tower  
183 Queen's Road Central  
Hong Kong  
*(A licensed corporation to carry on Type 1  
(dealing in securities) and Type 4 (advising on  
securities) regulated activities under the SFO)*

#### Legal advisers to our Company

*As to Hong Kong law*

#### **Guantao & Chow Solicitors and Notaries**

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

*As to Hong Kong law*

#### **Ms. Ng Wing Shan Queenie**

*Barrister-at-law*  
Rooms 2203 A&B, Fairmont House  
8 Cotton Tree Drive  
Central  
Hong Kong

*As to Hong Kong law*

#### **Ms. Kwong Wai Yu Claris**

*Barrister-at-law*  
Room 913–915, 9/F, Fairmont House  
8 Cotton Tree Drive  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*As to Hong Kong law*

**Mr. Chan Chung**

*Barrister-at-law*

10/F, Grand Building

15–18 Connaught Road Central

Central

Hong Kong

*As to Hong Kong law (tax law only)*

**Mr. Ng Kwok Yin, Godwin**

*Barrister-at-law*

Rm 2305–07, 23/F, Tower Two

Lippo Centre, 89 Queensway

Admiralty

Hong Kong

*As to Cayman Islands law*

**Appleby**

2206–19 Jardine House

1 Connaught Place

Central

Hong Kong

**Legal adviser to the Sole Sponsor and  
the Underwriters**

*As to Hong Kong law*

**TC & Co.**

*Solicitors, Hong Kong*

Units 2201–3, 22/F

Tai Tung Building

8 Fleming Road

Wanchai

Hong Kong

**Reporting accountants**

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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**Internal control consultant**

**CT Partners Consultants Limited**  
Unit 1601A, 16/F  
Tower 6  
China Hong Kong City  
33 Canton Road  
Tsim Sha Tsui  
Hong Kong

**Property consultant**

**Jones Lang LaSalle Corporate Appraisal and  
Advisory Limited**  
6/F, Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Industry consultant**

**China Insights Consultancy Limited**  
10/F, Tomorrow Square  
399 West Nanjing Road  
Huangpu District  
Shanghai  
PRC

**Receiving bank**

**Industrial and Commercial Bank of China  
(Asia) Limited**  
33/F ICBC Tower  
3 Garden Road  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Clifton House 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
<b>Headquarters, head office and principal place of business in Hong Kong</b>	Unit 903–905, 9/F The Octagon No. 6 Sha Tsui Road Tsuen Wan New Territories Hong Kong
<b>Company's website</b>	<b>www.hcho.com.hk</b> <i>(Information contained in this website does not form part of this prospectus)</i>
<b>Authorised representatives</b>	Mr. Sin Ka Pong (單家邦) 1C, Kei Ling Ha Sang Wai Sai Sha Road Sai Kung, Kowloon Hong Kong  Mr. Kyaw Sai Hong (左世康) (CPA (Practising)) Flat 15, 3/F, Pok Chi House Pok Hong Estate Shatin, New Territories Hong Kong
<b>Company secretary</b>	Mr. Kyaw Sai Hong (左世康) (CPA (Practising)) Flat 15, 3/F, Pok Chi House Pok Hong Estate Shatin, New Territories Hong Kong
<b>Compliance adviser</b>	<b>Dakin Capital Limited</b> Room 2701, Admiralty Centre Tower 1, 18 Harcourt Road Admiralty Hong Kong
<b>Audit committee</b>	Mr. Ho Chi Wai (何志威) (Chairman) Mr. Cheung Kwok Yan Wilfred (張國仁) Mr. Lau Leong Ho (劉亮豪)

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## CORPORATE INFORMATION

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<b>Remuneration committee</b>	Mr. Cheung Kwok Yan Wilfred (張國仁) ( <i>Chairman</i> ) Mr. Lau Leong Ho (劉亮豪) Mr. Sin Ka Pong (單家邦)
<b>Nomination committee</b>	Mr. Chan Siu Cheong (陳紹昌) ( <i>Chairman</i> ) Mr. Ho Chi Wai (何志威) Mr. Lau Leong Ho (劉亮豪)
<b>The Cayman Islands principal share registrar and transfer office</b>	<b>Estera Trust (Cayman) Limited</b> Clifton House 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bank</b>	<b>Hongkong and Shanghai Banking Corporation Limited</b> 8/F, Tower 2 HSBC Centre 1 Sham Mong Road Tai Kok Tsui Hong Kong

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## INDUSTRY OVERVIEW

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*The data and information presented in this section and elsewhere in this prospectus, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by CIC, which was commissioned by us. Our Directors believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. Our Directors and the Sole Sponsor have no reason to believe that the information is false or misleading in any material respect of that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters or any of our or their respective affiliates, advisers, directors, officers or representatives or any other person involved, except CIC, in the Share Offer. No representation is given as to the accuracy, completeness or fairness of such information and statistics.*

### SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company and an Independent Third Party, to conduct an analysis of, and to report on the Hong Kong's foundation industry for the period from 2013 to 2022. The fee payable to CIC for preparing the CIC Report is HK\$825,000, which we consider reflects market rates for similar services. CIC is a consulting firm founded in Hong Kong. It provides professional industry consulting across multiple industries. CIC's services include industry consulting service, commercial due diligence, strategic consulting, etc.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent professional market research company with extensive experience in their profession. The information and data collected by CIC have been analysed, assessed and validated using CIC's in-house analysis models and techniques. The primary research was conducted via interviews with key industry experts and leading industry participants. The secondary research involved analysis of market data obtained from several publicly available data sources, such as Hong Kong Census and Statistics Department (HKC&SD) and industry associations. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for reliability and accuracy. On such basis, we consider the data and statistics to be reliable.

The CIC report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic, and political environment in Hong Kong is expected to remain stable during the forecast period; (ii) Hong Kong's economy is likely to maintain a steady growth trajectory during the forecast period, accompanied with continuing urbanization; (iii) related key industry drivers are likely to propel continued growth in Hong Kong's foundation industry throughout the forecast period, including large amount of mega public infrastructure projects by Hong Kong Government, fast growing numbers of high-rise buildings and skyscrapers in Hong Kong, increasing residential property projects in Hong Kong, and high attention put on the old building reconstruction plan by Hong Kong government; (iv) there is no extreme *force majeure* or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

Parameters used in the CIC Report include:

- 1) Nominal GDP in Hong Kong;
- 2) Gross domestic fixed capital formation in Hong Kong;
- 3) Investment expenditure on building and construction industries in Hong Kong;



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## INDUSTRY OVERVIEW

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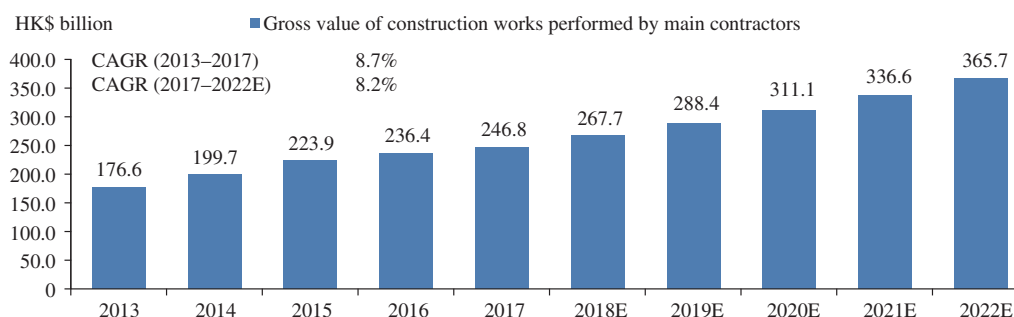
- 4) Gross output value of construction works performed by main contractors in Hong Kong; and
- 5) Gross output value of piling and related foundation works performed by main contractors in Hong Kong.

The CIC report mainly focuses on the Hong Kong's market, being the main jurisdiction in which our businesses are located. Our Directors confirm that, to the best of their knowledge, after taking reasonable care, there has been no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section.

### MARKET OVERVIEW OF THE CONSTRUCTION INDUSTRY IN HONG KONG

The gross output value of Hong Kong's construction industry increased from approximately HK\$176.6 billion in 2013 to approximately HK\$246.8 billion in 2017, representing a CAGR of approximately 8.7% between 2013 and 2017. Hong Kong's economy and population kept growing steadily during the past few years, which have driven demand for infrastructure facilities, residential buildings, and commercial buildings. Such demand has stimulated the construction industry to keep expanding accordingly. For instance, according to the Hong Kong Government, the public housing supply is expected to continue increasing in the future, which will further drive growth in the construction industry. On the other hand, infrastructure projects such as the Ten Major Infrastructure projects have also provided a boost to the growth of Hong Kong's construction industry. Since some of these are ongoing projects, it is expected that the public sector will provide a constant stimulus to Hong Kong's construction industry. Apart from the Hong Kong Government's own public spending, other factors have also affected the construction industry, including cyclical trends in the economy as a whole, fluctuations in interest rates, and the availability of new projects in the private sector. It is expected that the gross output value of Hong Kong's construction industry will reach approximately HK\$365.7 billion by 2022, representing a CAGR of approximately 8.2% between 2017 and 2022.

**Gross value of construction works performed by main contractors,  
Hong Kong, 2013–2022E**



*Note:* Data refers to gross output value of construction works in nominal terms.

*Sources:* HKC&SD, CIC

### MARKET OVERVIEW OF THE FOUNDATION INDUSTRY IN HONG KONG

#### Overview

The foundation forms the primary, supporting base for most construction works. Thus, the quality and integrity of a foundation is of fundamental importance when ensuring the safety of buildings, with the superstructure being constructed directly above this foundation. The primary construction phases for foundation works include pilings, pile caps, and ELS works, etc.

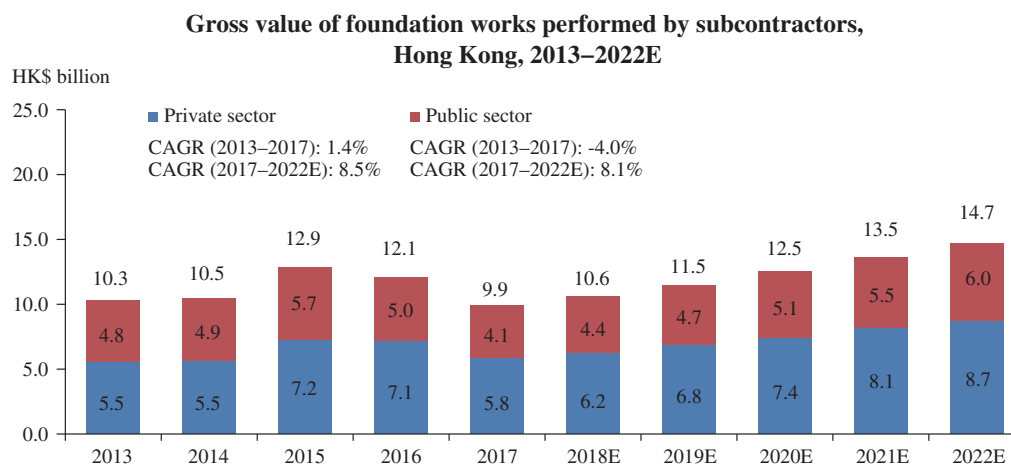
The gross output value of Hong Kong's foundation industry reached HK\$13.9 billion in 2017 with a CAGR of approximately -2.4% between 2013 and 2017. The increasing demand of

## INDUSTRY OVERVIEW

residential units in Hong Kong as well as Hong Kong Government's plan for increasing public housing supply together will help the foundation industry to keep growing in the future. It is expected that the gross output value of Hong Kong's foundation industry will further reach approximately HK\$19.4 billion in 2022, representing a CAGR of approximately 6.9% from 2017 to 2022.

### Gross output value of foundation works performed by subcontractors

The gross output value of foundation works performed by subcontractors of Hong Kong's foundation industry reached approximately HK\$12.9 billion in 2015 from approximately HK\$10.3 billion in 2013, mainly driven by a combination of public infrastructure works and private sector property development. However, the gross output value of foundation works performed by subcontractors in Hong Kong decreased from HK\$12.1 billion in 2016 to HK\$9.9 billion in 2017, which mainly attributed to the unexpected delay of progress of construction projects such as Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macau Bridge in the second half of 2017 due to filibuster and delay in the progress of scrutinising funding proposals for public works by the Government. Subcontracting is a common practice in the construction industry. Main contractors usually perform the piling works by themselves while subcontracting other parts of the foundation works such as pile caps and ELS to subcontractors. Approximately 70% of the foundation works was subcontracted in Hong Kong's foundation industry. In view of (i) the rising price of private real-estate industry; (ii) the rising government spending on public housing with the estimated public housing production for the next five years is about 100,000 units; (iii) the Hong Kong Government's further investment in mega infrastructure projects such as projects at the development area in Kai Tak, the development of Anderson Road Quarry, railway property development projects and urban renewal projects in Hong Kong; (iv) the recovery of delay in progress in second half of 2017 of construction projects due to filibuster and delay in the progress of scrutinising funding proposals for public works by the Government; the gross value of foundation works performed by subcontractors is expected to rebound in 2018 and expects to grow gradually to 2022. It is expected that the gross output value of foundation works performed by subcontractors of Hong Kong's foundation industry will reach approximately HK\$14.7 billion in 2022, representing a CAGR of 8.3% from 2017 to 2022.



Source: HKC&SD, CIC

### Registration of Hong Kong's foundation industry

All foundation works, except where the penetration depth of the foundation element does not exceed 3 meters, are specialized works of the foundation works category. As at 30 April 2018, there were 153 contractors on the list for Registered Specialist Contractors in foundation works in Hong Kong. The work scope of certification in foundation works described above only includes piling works, and other related works and services taking place in different

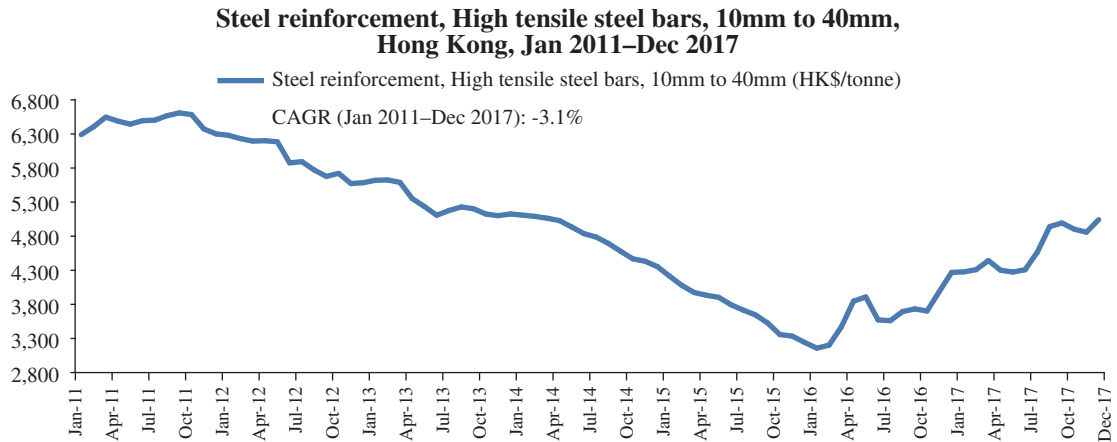
## INDUSTRY OVERVIEW

construction phases for foundation works such as underground drainage systems, ELS works, and pile caps do not require a specific certification to be carried out and thus these works can be undertaken by general contractors or subcontractors.

### Raw material price analysis of Hong Kong's foundation industry

#### *Steel reinforcement*

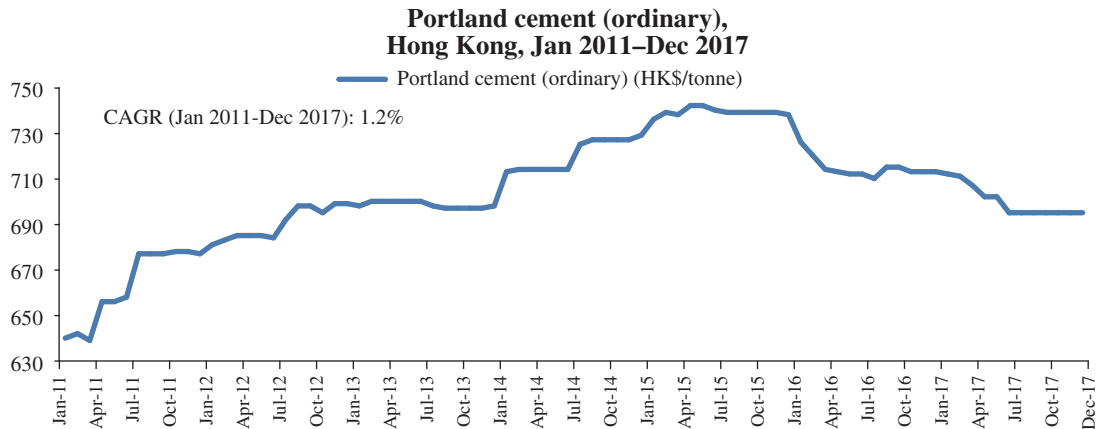
Between January 2011 and December 2017, the price of steel reinforcement in Hong Kong decreased from HK\$6,277 per metric tonne to HK\$5,035 per metric tonne, with a negative CAGR of 3.1%. This price drop was mainly caused by an overproduction of steel in the PRC and a weak global demand for steel. However, this price drop for steel reinforcement did not have an obvious impact on construction costs for buildings given that raw material suppliers retain strong negotiating power.



Sources: HKC&SD

#### *Portland cement*

Between January 2011 and December 2017, the price of portland cement (ordinary) in Hong Kong increased slightly from HK\$640 per metric tonne to HK\$695 per metric tonne. The demand for cement within Hong Kong's building construction works industry meanwhile received a boost from the implementation of various government construction plans, including the Ten Major Infrastructure Projects and the Public Housing Plan, with this rising demand helping to push up prices.

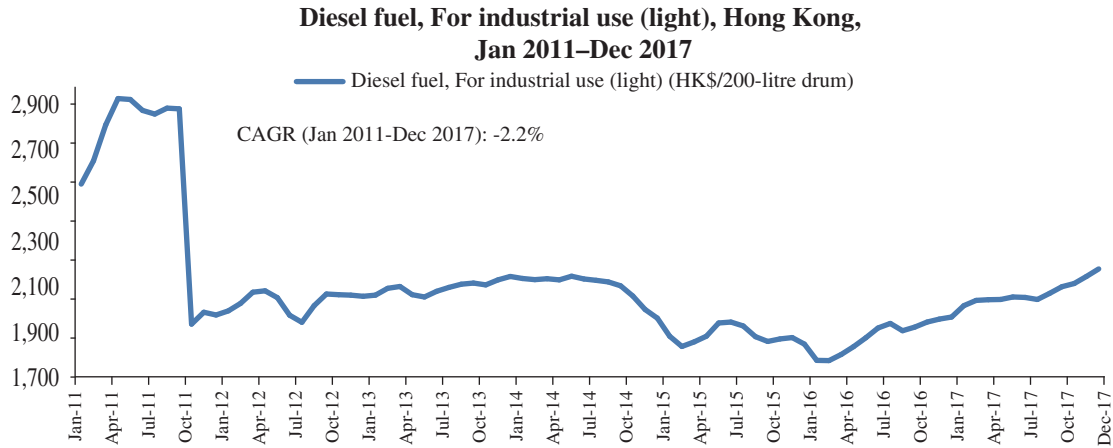


Sources: HKC&SD

## INDUSTRY OVERVIEW

### *Diesel fuel*

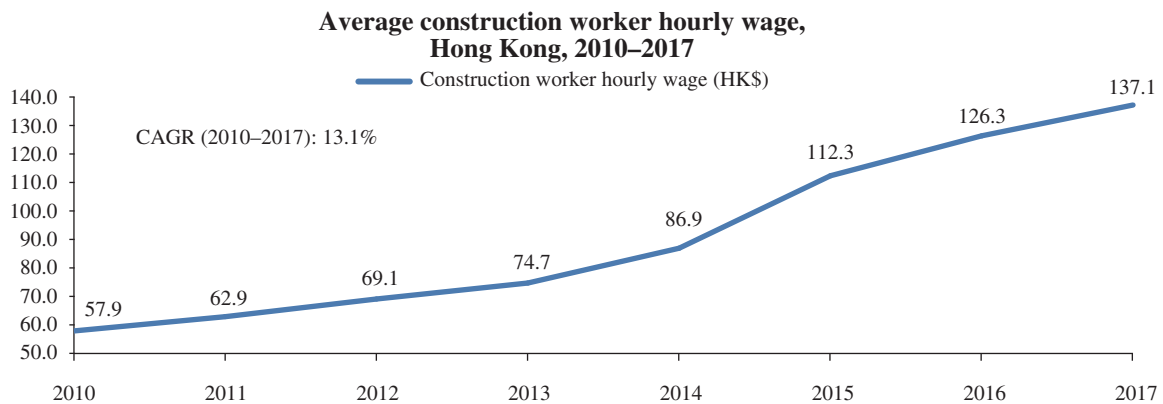
As of 2012, the diesel fuel price remained at a relatively stable level. However, with the new discovery of shale oil resources in North America and increases in the production of crude oil, the price of diesel fuel decreased in 2014. In terms of the forecast period, the price of diesel fuel is likely to stay at a low level, and may decrease even further. This lower price for diesel fuel will have an impact on construction costs, and will likely be reflected in the contract prices within the market.



Sources: HKC&SD

### *Labor cost analysis*

Between 2010 and 2017, the average wage for construction workers in Hong Kong increased from HK\$57.9 per hour to HK\$137.1 per hour. Due to the Government's prohibition on foreign labor inflows and the problem associated with an aging workforce in the building construction works industry, the shortage of construction workers has become an increasingly serious issue. The relatively low supply of labor in Hong Kong's building construction works industry has been the major factor driving up the wage level of its workers. To address this labor shortage problem, the Government has initiated various measures, including offering new training programs and an increase in the minimum wage. However, given that the number of new construction projects in both the private and public sector in Hong Kong still remain at a high level, the average wage of construction workers in Hong Kong is expected to keep rising during the forecast period.



Sources: HKC&SD

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## INDUSTRY OVERVIEW

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### COMPETITIVE LANDSCAPE OF HONG KONG'S FOUNDATION INDUSTRY

#### Overview of the competitive landscape of contractors in Hong Kong's foundation industry

Customer concentration is common for construction companies in Hong Kong. Contract arrangement is common in the construction industry in Hong Kong. Top 5 foundation works contractors (who were also on the list of specialist contractors) shared about 58.5% of the total foundation industry in Hong Kong in 2017. Leading contractors focus on both private and public sector in the foundation industry in Hong Kong.

Ranking	Company	Headquarters location	Major services	Foundation works business revenue in Hong Kong in 2017 (HK\$ million)	Market share in 2017
1	Company A	Hong Kong	Foundation piling, property development, machinery leasing	2,605.8	18.7%
2	Company B	Hong Kong	Foundation piling, construction business, civil engineering	2,021.8	14.5%
3	Company C	Hong Kong	Foundation piling, design management, construction services, civil engineering	1,331.4	9.6%
4	Company D	Hong Kong	Foundation piling, machinery leasing	1,168.6	8.4%
5	Company E	Hong Kong	Foundation piling, investigation filed, site formation	1,019.7	7.3%

Source: CIC

#### Overview of the competitive landscape of subcontractors in Hong Kong's foundation works industry

The competitive landscape of Hong Kong's subcontracting foundation works industry was relatively fragmented in 2017, since certificates or registration at the government department are not required to carry out ancillary works of foundations including ELS works, pile caps construction, and underground drainage systems building. Subcontractors usually do not directly compete with main contractors in Hong Kong foundation industry. Multilayer subcontracting is a common practice in the construction industry in Hong Kong. Providing surety bonds or personal guarantee by directors and/or shareholders is common in construction industry in Hong Kong. In 2017, the top five subcontractors in Hong Kong's foundation works industry occupied around 19.5% of the total market share. Our Group recorded a revenue of approximately HK\$396.9 million in foundation works subcontracting business in 2017, which represented 4.0% of the total market share.

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## INDUSTRY OVERVIEW

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Ranking	Company	Headquarters location	Major services	Revenues from foundation works in Hong Kong in 2017 <i>(Note 1)</i> <i>(HK\$ million)</i>	Market share in 2017
1	Company F	Hong Kong	ELS works, pile material handling	731.8	7.4%
2	The Group <i>(Note 2)</i>	Hong Kong	ELS works, pile caps construction, underground drainage systems building	396.9	4.0%
3	Company G	Hong Kong	ELS works, pile caps construction, substructure construction, machinery leasing	304.0	3.1%
4	Company H	Hong Kong	ELS works, pile caps construction	256.4	2.6%
5	Company I	Hong Kong	ELS works, pile caps construction, drainage works	238.1	2.4%

*Notes:*

1. Revenue only includes Hong Kong's foundation works performed by subcontractors who do not possess the registration of specialist contractors (foundation works).
2. Revenue of the Group is for year ended 31 March, 2017.

*Source: CIC*

### Competitive advantages of the Group

#### *(i) Long operating history and good reputation*

Reputation and proven practical industry experience of contractors are important competitive factors in the foundation industry in Hong Kong. With years of experience operating in the industry, the Company has built up a good reputation and has acquired extensive practical experience, a combination which forms the most important competitive strength for the Company. Given its long history and well-established reputation, return clients frequently choose to partner with the Company again. Furthermore, its relatively long operating history in the industry means that the Company has already acquired the use of advanced technology such as latest machinery and BIM system, which is an important factor for any contractor hoping for success during the tendering process.

#### *(ii) Proven track record*

The Company has already successfully completed a host of projects in Hong Kong. With this proven track record, the Company is likely to gain a competitive advantage during the tender process, since main contractors normally review candidates' track records when evaluating potential subcontractors for a new project. Moreover, by having a proven track record, the Company is much more likely to outperform smaller competitors and new entrants into the industry.

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## INDUSTRY OVERVIEW

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### *(iii) Well-established networks*

The Company has established a strong and well-established network with both main contractors and subcontractors. By having access to this network, the Company can receive more tenders from main contractors given that these are usually private tenders. Furthermore, the Company can benefit from their long history of cooperation with subcontractors by gaining access to an additional pool of labour, which is more and more important given ongoing labour shortages in Hong Kong's construction industry.

### *(iv) Large quantity of privately-owned machinery*

Another important competitive strength for the Company is the fact that it has a large quantity of privately-owned machinery. Since the Company already owns most of the machinery it needs, it can work independently without having to contract with other companies for leasing machinery. In this way, the Company can offer more competitive pricing options during the tendering process, which ultimately improves its chances when seeking out new projects.

## **Entry barriers of Hong Kong's foundation industry**

### *(i) Capital requirements*

Companies working in the foundation industry require a significant upfront capital investment in machinery, along with a sizeable amount of working capital to continue operating in the market. Typically, the revenue generated by a project is retained on a month-to-month basis. In some circumstances, property owners may require companies engaged in different parts of foundation works to submit their financial statements before tendering in order to ensure the proper implementation of any future project. Thus, capital requirements create a high entry barrier for new entrants into the market.

### *(ii) Relevant licences and registration*

In order to tender for and perform various kinds of works in the foundation industry, companies are required to first register for the relevant licenses. This includes the license for Specialist Contractors (Sub-register of Foundation Works Category) as per the Building Development of HKSAR for piling works, and the Subcontractor Registration Scheme as per the Construction Industry Council for subcontracting works, including pile caps and ELS. The process for obtaining these licenses creates another major entry barrier for new entrants since it takes a considerable amount of time and capital to successfully acquire them. Moreover, different grades of licenses are granted to companies for projects based on different categorizations. Hence, new entrants with lower grade licenses are unable to compete with large, established players in the industry when tendering for large-scale projects.

### *(iii) Proven track record of successful project completions*

In order to stand out during the tendering process and become a credible choice for clients, companies need to provide a proven track record for successfully completed projects. Since this kind of track record takes years to establish, it remains a major entry barrier for new entrants into Hong Kong's foundation and general building works industry.

### *(iv) Technical barriers*

Due to the complexity of different kinds of foundation works or related services provided in different construction phases for foundation works in terms of geographic location, ground status, local conditions, and environmental requirements, the technical barrier is relatively high for Hong Kong's foundation industry. Most projects even require companies to first provide a detailed set of designs before tendering. Having the technical know-how for foundation works becomes a technical barrier in Hong Kong's construction works industry when new and inexperienced companies wish to enter this market.



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## INDUSTRY OVERVIEW

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### **Drivers of Hong Kong's foundation industry**

#### ***(i) Large number of mega public infrastructure projects by Hong Kong Government***

The Ten Major Infrastructure Projects released by the Hong Kong Government have provided a great boost to Hong Kong's foundation and general building works industry since these projects are large in scale and require a large amount of foundation works and related general building works in keeping with the high level of investment. With more projects expected to commence during the forecast period, it is expected that Hong Kong's foundation and general building works industry will receive a further boost accordingly, ultimately benefitting in the long run from these mega public infrastructure projects.

#### ***(ii) Fast growing numbers of high-rise buildings and skyscrapers in Hong Kong***

Given its small geographical size, high-rise buildings and skyscrapers are popular in Hong Kong in accommodating its large population. At present, there are approximately 8,000 high-rise buildings and skyscrapers in Hong Kong, with this number continually growing. Since these buildings require a large amount of investment in foundation works to meet building requirements, it is expected that Hong Kong's foundation industry will be stimulated by an increasing number of new projects focused on constructing high-rise buildings and skyscrapers.

#### ***(iii) Increasing residential property projects in Hong Kong***

The Hong Kong Government plans to increase the supply of residential land for public and private housing in order to satisfy the increased demand for new housing units and in an attempt to stabilize what is now an overheated property market. According to its 2016–17 Budget Speech, the Hong Kong Government has adopted a public housing supply target of 280,000 units in accommodating this growing demand, providing access to more land for the ten-year period between 2016–17 and 2025–26. The Hong Kong Government will also provide public land for projects launched by the Urban Renewal Authority and the MTR Corporation. These policies will drive the foundation and general building works industry in Hong Kong, with demand for foundation and general building works expected to continue increasing over the next five years.

#### ***(iv) The Hong Kong Government's old building reconstruction plan***

Apart from construction projects for new buildings, there are also a number of planned projects for rebuilding older buildings in Hong Kong. Since most of these older buildings are located in the city center with higher population densities, foundation works will require special technology, such as frictional pre-bored H-piles with lower noise and vibration, in order to be relatively more eco-friendly.

### **Future trends of Hong Kong's foundation industry**

#### ***(i) Continuous practice of subcontracting in the foundation industry***

Subcontracting is a common practice in the construction industry. Main contractors usually perform piling works by themselves while subcontracting other parts of the foundation works, such as pile caps and ELS, to subcontractors. Moreover, leading subcontractors usually focus on the same parts of a foundation project and possess extensive experience in these areas. The current industry practices associated with subcontracting are therefore likely to continue throughout the forecast period.

#### ***(ii) On-site training offered by contractors***

Foundation works require the use of skilled workers in order to successfully conduct a project. However, labour shortage has become an increasingly important challenge in Hong Kong, especially as concerns skilled construction workers. In order to overcome the challenges posed by the shortage of skilled workers in the foundation and general building works industry,



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## INDUSTRY OVERVIEW

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foundation works and general building works contractors in Hong Kong have begun hiring less experienced workers, and have opted instead to provide them with more support and on-site training.

### *(iii) Technological advancement*

In order to achieve better cost efficiency in the foundation industry, companies are continuously seeking ways to enhance their technological capabilities in order to meet the stricter requirements of their clients. For example, advanced machines used in conducting foundation works have been introduced into the market, with these new machines having several key advantages, including being more eco-friendly and having better cost efficiency. It is expected that the adoption of these kinds of technologies will become a major trend within Hong Kong's foundation industry.

### *(iv) Piling systems with reduced generation of noise and vibration*

Advanced small diameter pile systems are increasingly preferable in Hong Kong's foundation industry, with these systems generating a lower level of noise and vibration when operated. Generally, if the Environmental Protection Department receives complaints from the public about the noise and vibration generated from foundation operations, the foundation operation must be stopped. The timeline for a project may therefore face delays, and contractors may have to bear the responsibility for any associated costs. Therefore, it is preferable to use piling systems which generate less noise and vibration during which will help contractors avoid any unnecessary project delays.

## **Major challenges of Hong Kong's foundation industry**

### *(i) Aging construction workers and labour shortages*

Aging workers and labour shortages have been viewed as the major threats to Hong Kong's foundation and general building works industry. The gap between the number of hired workers and the number of workers needed to meet growing demand in the foundation and general building works industry can be attributed to the fact that this industry faces major hurdles when attracting new workers. Furthermore, some workers may even be attracted to take positions in Macau and mainland China instead, receiving better offers compared with local companies, which leaves the industry with an even larger gap to fill.

### *(ii) Increasing costs*

Foundation projects are both labour and capital intensive. Overall costs are increasing due to increased costs for both labour and materials. Labour costs have become particularly burdensome, with the average wage for construction workers in Hong Kong having increased from approximately HK\$57.9 per hour in 2010 to reach approximately HK\$137.1 per hour in 2017. These increasing costs may lead to lower profit margins for foundation works companies currently operating in this industry.

### *(iii) Stricter environmental requirements placed on foundation works*

Construction sites for foundation works may cause environmental disturbances that affect not only workers on site but also occupants of nearby buildings and the general public. With some projects located in the city center, it is expected that environmental standards will become increasingly stringent in the future, with more requirements placed on the reduction of excess noise and vibration. In order to stay competitive during the tendering process, companies may therefore find it necessary to acquire advanced technologies.

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## LAWS AND REGULATIONS

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*This section sets forth a summary of the major laws and regulations applicable to our business in Hong Kong. As this is a summary, it does not contain detailed analysis of the Hong Kong laws which are relevant to the business of our Group.*

### **A. LABOUR, HEALTH AND SAFETY**

During the Track Record Period and as at the Latest Practicable Date, we employed construction workers for undertaking foundation works and are therefore subject to the following laws and regulations.

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

The Construction Workers Registration Ordinance was enacted on 2 July 2004 to provide, among others, for registration and regulation of construction workers. The principal object of the Construction Workers Registration Ordinance is to establish a system for registration of construction workers and to regulate construction workers who personally carry out construction work on construction sites.

#### ***Employment of registered construction workers***

Under sections 3(1) and 5 of the Construction Workers Registration Ordinance, the principal contractors/subcontractors/employers/controllers of construction sites are required to employ only registered construction workers to personally carry out construction work on construction sites.

#### ***Keeping and submission of site daily attendance report***

Under the Construction Workers Registration Ordinance, a principal contractor/controller of a construction site is required to:

1. establish and maintain a daily record in the specified form that contains information on registered construction workers employed by him and, in the case of a controller being the principal contractor, by a subcontractor of the controller (section 58(7)(a) of the Construction Workers Registration Ordinance); and
2. furnish the Registrar of Construction Workers in such manner as directed by the Registrar of Construction Workers with a copy of the record:
  - i. for the period of seven days after any construction work begins on the site; and
  - ii. for each successive period of seven days, within two business days following the last day of the period concerned (section 58(7)(b) of the Construction Workers Registration Ordinance).

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

A principal contractor is subject to the provisions on subcontractor’s employees’ wages in the Employment Ordinance. Section 43C of the Employment Ordinance provides that if any wages 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, such wages shall be payable by the principal contractor and/or every superior subcontractor jointly and severally. A principal contractor’s liability 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 work; and (b) to the wages due to such an employee for two months without any deductions (such months shall be the first two months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from a subcontractor must serve a notice in writing on the principal contractor within 60 days after the wage due date or another 90 days if permissible. 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 subcontractors 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 the Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior subcontractor, as the case may be. The principal contractor or superior subcontractor may either (1) claim contribution from every superior subcontractor to the employee’s employer or from the principal contractor and every other such superior subcontractor as the case may be; or (2) deduct by way of 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.

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

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the

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employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

### **Immigration Ordinance (Chapter 115 of the Laws of Hong Kong) (“Immigration Ordinance”)**

Pursuant 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) should 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.

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

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in an industrial undertaking. Under the Factories and Industrial Undertakings Ordinance, every proprietor shall, as far as is reasonably practicable take care of the safety and health at work of all persons employed by him at the industrial undertaking by:

- providing and maintaining plant and work systems that are safe and without risks to health;
- making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a work environment that is safe and without risks to health.

A proprietor who contravenes these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes these duties wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for six months.

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Section 6BA(5) of the Factories and Industrial Undertakings Ordinance also provides since 1 May 2001 every proprietor shall not employ at the undertaking a relevant person who has not been issued a relevant safety training certificate or whose relevant certificate has expired. A proprietor who contravenes this section commits an offence and is liable to a fine of HK\$50,000.

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 is a commission of an offence and different levels of penalty will be imposed. 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 addition, under the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong), a proprietor or contractor shall have various duties including: (i) attending to the development, implementation of a safety management system; (ii) attending to the preparation and revision of a safety policy; (iii) attending to the establishment of a safety committee; and (iv) attend to the appointment of a registered safety auditor to conduct safety audit. A contravention of these prescribed duties shall constitute an offence punishable by a fine of up to (a) HK\$200,000 and imprisonment of up to six months in relation to items (i), (ii) and (iv) above; and (b) HK\$100,000 and imprisonment of up to three months in relation to item (iii) above.

### **Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the Laws of Hong Kong) (the “Lifting Appliances and Lifting Gear Regulations”)**

Safety of lifting appliances used at construction sites is mainly regulated by the Lifting Appliances and Lifting Gear Regulations administered by the Labour Department.

The Lifting Appliances and Lifting Gear Regulations lay down requirements with respect to the construction, inspection, testing, thorough examination, operation, erection, dismantling and alteration of lifting appliances, including cranes. For instance, the Lifting Appliances and Lifting Gear Regulations specifically require the owner, among other matters, to ensure that all lifting appliances shall be of good mechanical construction, made of strong and sound materials, free from patent defect and properly maintained, and that the arrangements for fixing and anchoring the appliance are adequate to secure its safety. The owner of a crane shall ensure that it is not erected, dismantled or altered except under the supervision of a competent person.

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Pursuant to the Lifting Appliances and Lifting Gear Regulations, before a lifting appliance is used at or moved in an industrial undertaking, the owner of the appliance shall take appropriate precautions to ensure its stability. The owner of a crane shall ensure that the crane can only be operated by a person who (i) has attained the age of 18 years; (ii) holds a valid certificate issued by the Construction Industry Council or any other person specified by the Commissioner for Labour; and (iii) in the opinion of the owner, is competent to operate the crane by virtue of his experience.

For the purposes of the Lifting Appliances and Lifting Gear Regulations, ‘owner’, in relation to any lifting appliance or lifting gear, includes the lessee or hirer thereof, and any overseer, foreman, agent or person in charge or having the control or management of the lifting appliance or lifting gear, and the contractor who has control over the way any construction work which involves the use of the lifting appliance or lifting gear is carried out and, in the case of a lifting appliance or lifting gear situated on or used in connection with work on a construction site, also includes the contractor responsible for the construction site.

Any contraventions by the owners of any crane or lifting appliance of the Lifting Appliances and Lifting Gear Regulations will attract penalties from a fine of HK\$200,000 to a fine of HK\$200,000 and 12 months imprisonment.

### **Factories and Industrial Undertakings (Loadshifting Machinery) Regulations (Chapter 59AG of the Laws of Hong Kong) (the “Loadshifting Machinery Regulations”)**

According to section 3 of the Loadshifting Machinery Regulations, the responsible person of a loadshifting machine shall ensure that the machine is only operated by a person who (i) has attained the age of 18 years; and (ii) holds a valid certificate applicable to the type of loadshifting machine to which that machine belongs.

According to section 4 of the Loadshifting Machinery Regulations, the responsible person of a loadshifting machine shall ensure the provision to each of his employees who is instructed (whether directly or indirectly) by him to operate a loadshifting machine of a training course conducted for the type of loadshifting machine to which that machine belongs, unless the relevant employee already holds a valid applicable certificate.

A responsible person who without reasonable excuse contravenes section 3 or section 5 commits an offence and is liable to a fine at level 5 (currently at HK\$50,000).

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

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 of their employees at work by attending to the following:

- providing and maintaining plant and work systems that are safe and without risks to health;
- making arrangement for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- maintaining the workspace in a condition that is safe and without risks to health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a working environment that is safe and without risks to health.

Failure to comply with 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 six months.

The Commissioner for Labour may also issue improvement notices against non-compliance of the Occupational Safety and Health Ordinance or the Factories and Industrial Undertakings Ordinance, or suspension notices against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months.

We have set up an occupational health and safety management system to promote work safety among our employees and to prevent occurrence of accident in our daily operation. For details, please refer to the section headed "Business – Occupational Health and Safety" in this prospectus.



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

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 or dies 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 of the Employees' Compensation Ordinance, an employer must notify the Commissioner for Labour of any work accident by submitting Form 2 (within 14 days for general work accidents and within seven days for fatal accidents), irrespective of whether the accident gives rise to any liability to pay compensation. If the happening of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of seven and 14 days respectively then such notice shall be given not later than seven days or, as may be appropriate, 14 days after the happening of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

Pursuant to section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to subcontractors' employees who are injured in the course of their employment to the subcontractor. The principal contractor is, nonetheless, entitled to be indemnified by any person who would have been liable to pay compensation to the injured employee.

According 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 for injuries at work in respect of all their employees (including full-time and part-time employees). Where a principal contractor has undertaken to perform any construction work, he may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of his subcontractor(s) under the Employees' Compensation Ordinance and at common law.

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

For our insurance coverage in this connection, please refer to the section headed "Business – Insurance – Employees' compensation" in this prospectus. For the information



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of 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, please refer to the section headed "Business – Litigation and potential claims" in this prospectus.

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

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 properties 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 circumstances of the case that is reasonable to ensure 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.

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

Employers are required to enroll their regular employees (except for certain exempt persons) who are at least 18 but under 65 years of age and employed for 60 days or more in a Mandatory Provident Fund ("MPF") scheme within the first 60 days of employment.

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

### ***Industry Schemes***

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.

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

- (1) foundation and associated works;

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- (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 within the same Industry Scheme. This is convenient for scheme members and saves administrative costs.

### **B. ENVIRONMENTAL PROTECTION**

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

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, particularly the Air Pollution Control (Open Burning) Regulation, the Air Pollution Control (Construction Dust) Regulation and the Air Pollution Control (Smoke) Regulation. 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.

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### **Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) (“Air Pollution Control (Construction Dust) Regulation”)**

Under the Air Pollution Control (Construction Dust) Regulation, “construction work” includes but not limited to the construction, demolition and reconstruction of the whole or any part of any building or other structure and site formation. Under section 3 of the Air Pollution Control (Construction Dust) Regulation, the contractor responsible for a construction site where any notifiable work is proposed to be carried out shall give notice to the public officer appointed under the Air Pollution Control Ordinance of the proposal to carry out the work. Such “notifiable work” includes site formation, reclamation, demolition of a building, work carried out in any part of a tunnel that is within 100 metres of any exit to the open air, construction of the foundation of a building, construction of the superstructure of a building or road construction work.

Under section 4 of the Air Pollution Control (Construction Dust) Regulation, the contractor responsible for a construction site where a notifiable work is being carried out shall ensure that the work is carried out in accordance with the Schedule of the Air Pollution Control (Construction Dust) Regulation.

### **NRMM Regulation**

The NRMM Regulation came into effect on 1 June 2015 to introduce regulatory control on the emissions of 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 NRMM Regulation. Under section 5 of the NRMM 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 NRMM 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.

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On 8 February 2015, the Works Branch of Development Bureau issued Technical Circular (Works) No. 1/2015 (the “**Technical Circular**”), pursuant to which the Government of Hong Kong has promulgated an implemental 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, including design and build contracts, with an estimated contract value exceeding \$200 million as follows:

	<b>Phase 1 Tenders to be invited from 1 June 2015 to 31 May 2017</b>	<b>Phase 2 Tenders to be invited from 1 June 2017 to 31 May 2019</b>	<b>Phase 3 Tenders to be invited from 1 June 2019 onwards</b>
Generators		No exempted NRMM is allowed	
Air Compressors		No exempted NRMM is allowed	
Excavators	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed
Crawler Cranes	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed

Notwithstanding the aforesaid phase out plan, exempted NRMM may still be permitted at the discretion of the architect or engineer of public contracts if there is no feasible alternative. Under phase out plan of the Technical Circular, the contractors being invited to tender or to participate in all new capital works contracts of public works (including design and build contracts) with an estimated contract value exceeding HK\$200 million on or after 1 June 2015 shall allow no exempted generator and air compressor to be used on site after 1 June 2015 and the quantity of exempted excavators and crawler cranes used on site not to exceed 50%, 20% and 0% of the total number of exempted NRMMs being used on site since 1 June 2015, 1 June 2017 and 1 June 2019, respectively.

For details of the approved and exempted NRMMs owned by our Group as at 30 November 2017, please refer to the section headed “Business – Our machinery fleet” of this prospectus.

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

The Noise Control Ordinance controls the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its

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subsidiary regulations in carrying out general construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling at all times, construction noise permits are required from the Environmental Protection Department in advance.

Under the Noise Control Ordinance, noisy construction work and the use of powered mechanical equipment in populated areas are not allowed between 7:00 p.m. and 7:00 a.m. on normal weekdays and any time on general holidays, unless prior approval has been granted by the Environmental Protection Department through the Construction Noise Permit System. Certain equipment is also subject to restrictions when its use is allowed. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Environmental Protection Department. Percussive pile-driving is allowed on weekdays only with prior approval, in the form of a Construction Noise Permit from the Environmental Protection Department. Any person who is in contravention of the aforesaid provisions, according to the Noise Control Ordinance, shall be liable (a) on first conviction to a fine of HK\$100,000; (b) on second or subsequent conviction, 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) (“Water Pollution Control Ordinance”)**

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

All discharges, other than domestic sewage to a foul sewer or unpolluted water to a storm drain, must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent and 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 or discharges any matter into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for six months and (a) for a first offence, a fine of HK\$200,000; (b) for a second or subsequent offence, a fine of HK\$400,000, and in addition, if the offence is a continuing offence, to a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

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## LAWS AND REGULATIONS

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

The Waste Disposal Ordinance controls the production, storage, collection, treatment, 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, particularly the Waste Disposal (Charges for Disposal of Construction Waste) Regulation and the Waste Disposal (Chemical Waste) (General) Regulation.

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, a main contractor who undertakes construction work with a value of HK\$1,000,000 or above will be required to establish a billing account with the Environmental Protection Department to pay any disposal charges payable in respect of the construction waste generated from construction work undertaken under that contract, within 21 days after the contract is awarded.

Under the Waste Disposal (Chemical Waste) (General) Regulation, anyone who produces chemical waste or causes it to be produced has to register as a chemical waste producer. The waste must be packaged, labelled and stored properly before disposal. Only a licensed 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 staff of 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 Environmental Protection. A person who except under and in accordance with a permit or authorisation, does, causes or allows another person to do anything for which such a permit or authorisation is required commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for six months for the first offence, HK\$500,000 and to imprisonment for 2 years for a second or subsequent offence.

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

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 prior to their construction and operation (and decommissioning, if applicable), unless exempted.

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## LAWS AND REGULATIONS

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According to the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (which includes roads, railways and depots, residential and other developments, etc.) 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 six months; (b) on a second or subsequent conviction on indictment to a fine of HK\$5,000,000 and to imprisonment for two years; (c) on a first summary conviction to a fine at level 6 (currently at HK\$100,000) and to imprisonment for six 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) (“Public Health and Municipal Services Ordinance”)**

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 at level 3 (currently at HK\$10,000) upon conviction with a daily fine of HK\$200. Discharge of muddy water from a construction site is actionable under the Public Health and Municipal Services Ordinance. Maximum fine is at level 5 (currently at HK\$50,000) upon conviction. Any accumulation of water on any premises found to contain mosquito larvae or pupae is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is at level 4 (currently at HK\$25,000) 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 at level 3 (currently at HK\$10,000) upon conviction and a daily fine of HK\$200. 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 at level 3 (currently at HK\$10,000) upon conviction and a daily fine of HK\$200.

### **C. CONTRACTOR LICENSING REGIME AND OPERATION**

As we are a subcontractor engaged in foundation works, we are subject to the following laws, regulations and possible legislations.

#### **Contractor Licensing Regime and the SRS**

Under the current contractors registration system in Hong Kong, the Building Authority shall keep a register of general building contractors who are qualified to perform the duties of a general building contractor and a register of specialist contractors who are qualified to carry out specialised works (e.g. demolition works and foundation works)



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## LAWS AND REGULATIONS

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specified in the category in the sub-register in which they are entered. Registered general building contractors may carry out general building works and street works which do not include any specialised works designated for registered specialist contractors.

The main contractors carrying out private sector demolition works, foundation works and ancillary services are required to register or work together with contractors who are registered on either the list of register of general building contractors or the list of register of specialist contractors (sub-register of demolition works category and foundation works category) with the Buildings Department in Hong Kong.

For any demolition works, foundation works and ancillary services where an entity is involved as a subcontractor, if there is a registered specialist contractor who is registered with the Buildings Department under the appropriate category 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. Subcontractors in Hong Kong may apply for registration under the SRS managed by the Construction Industry Council.

The SRS 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) 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 sub-contractors (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 SRS. All subcontractors registered under the VSRS have automatically become registered subcontractors under the SRS.

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 SRS) of the SRS, he 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 part of the public works sub-contracted to them involving trades available under the Primary Register of the SRS, the contractor shall ensure that all sub-contractors (irrespective of any tier) are registered under the relevant trades in the Primary Register of the SRS.



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## LAWS AND REGULATIONS

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Applications for registration under the Primary Register of the SRS 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 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.

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 SRS (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.

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 SRS) (the "**Codes of Conduct**"). Failing to comply with the Codes of Conduct may result in regulatory actions taken by the Management Committee.

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## LAWS AND REGULATIONS

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

1. supply of false information when making an application for registration, renewal of registration or inclusion of additional trades;
2. failure to give timely notification of changes to the registration particulars;
3. serious violations of the registration rules and procedures;
4. 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);
5. convictions for failure to pay wages on time to workers in accordance with the relevant provisions contained in the Employment Ordinance;
6. wilful misconducts that may bring the SRS into serious disrepute;
7. civil awards/judgments in connection with the violation of or convictions under the relevant sections of the Mandatory Provident Fund Schemes Ordinance;
8. 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 consequences:
  - 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;
9. 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;
10. convictions for employment of illegal worker under the Immigration Ordinance; or
11. 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.

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## LAWS AND REGULATIONS

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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.

As at the Latest Practicable Date, HCC Foundations and HCC Transportation were both registered under the SRS in respect of certain trades as detailed in the section headed “Business – Licences and permits” of this prospectus.

### **SOPL**

The Government has conducted a public consultation on the proposed security of payment legislation for the construction industry to promote fair payment and help main contractors, subcontractors, consultants, sub-consultants and suppliers to receive payment on time for work done and services provided, so as to improve payment practices and provide rapid dispute resolution. The Government will proceed with the legislative work with the aim of introducing the bill to the Legislative Council of Hong Kong in 2018/2019.

According to the results of the public consultation on the proposed SOPL released by the Legislative Council Panel on Development in April 2016, the following major issues are with positive support and broad directions:

- (a) For the scope of application, SOPL shall (i) apply to all construction works and consultancy contracts in the public sector entered into by the Government and 31 specified statutory and/or public bodies and corporations; (ii) apply to all subcontracts at all tiers irrespective of contract value where it applies to the main contract; and (iii) cover contracts for supply of materials or plant.
- (b) For the payment arrangement, (i) parties shall be free to agree when payments can be claimed and the basis of valuation work or services except that the duration for payment shall not exceed 60 calendar days for both interim and final payments; (ii) default payment terms will apply if the parties do not make express provisions in their contracts; and (iii) paying parties who fail to serve payment response within 30 calendar days of receipt of a payment claim which they are entitled to serve shall not be automatically liable to the full amount of the payment claim but will not be able to raise any set off against amounts properly due against the payment claim.

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## LAWS AND REGULATIONS

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- (c) “Pay when paid” type contractual clauses shall be rendered ineffective even when the reason for non-payment is insolvency higher in the supply chain.
- (d) For suspension on non-payment, unpaid parties (i) shall have the right to suspend or reduce progress of work; (ii) must give written notice of their intention to suspend to the non-paying parties and take reasonable steps to notify the site owner; and (iii) shall be entitled to costs and additional time in respect of delay and disruption arising from the suspension.
- (e) For dispute resolution, both parties shall have the right to refer payment-related disputes to adjudication and the time limit for commencing adjudication shall be within 28 calendar days of such dispute arises, whereas no time limit shall be imposed for commencing adjudication for disputes on time for performance or entitlement to extension of time for performance. The adjudicator shall publish its decision within 55 working days of appointment and such decision shall be enforced in the same way as court judgments.

The Government will further consider whether (i) the coverage in the private section should be limited to contracts for “new buildings” (as defined in the Buildings Ordinance) with original contract value exceeding HK\$5 million, including extension to repair, maintenance, alternation and addition works; (ii) SOPL shall cover oral, partly oral and written contracts; (iii) SOPL shall cover contracts for professional services; (iv) “pay when paid” clauses should be rendered ineffective in nominated subcontracts; and (v) whether parties should be entitled to refer disputes on time for performance or entitlement to extension of time for performance to adjudication.

It is probable that some of our contracts will be caught by the SOPL and where such contracts are subject to SOPL we will have to ensure that their terms comply with the legislation in this regard. SOPL is designed to assist contractors throughout the contractual change to ensure cash-flow and access to a swift dispute resolution process, however, there are still uncertainties on the final legislative framework to be submitted to the Legislative Council for consideration and approval. During the Track Record Period, some of our customers adopted a “pay when paid” policy and they generally pay us after collection of payments from their customers. On the other hand, we have not adopted any “pay when paid” policy with our subcontractors and we were granted with an average credit period of 30 days by our suppliers. Furthermore, our Group’s trade payables turnover days were approximately 46.6 days, 24.0 days, 48.5 days and 66.3 days for the each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively. Based on the above and subject to the terms of the final legislation, our Directors believe that our payments to subcontractors does not materially deviate from the SOPL and SOPL will have a positive impact on us as it will ensure we get paid in a timely manner by our customers if it becomes effective.

**D. OTHERS**

**Competition Ordinance (Chapter 619 of the Laws of Hong Kong) (“Competition Ordinance”)**

The Competition Ordinance prohibits and deters undertakings in all sectors from adopting anti-competitive conduct which has the object or effect of preventing, restricting or distorting competition in Hong Kong. It provides for general prohibitions in three major areas of anti-competitive conduct described as the first conduct rule, the second conduct rule and the merger rule.

The first conduct rule prohibits undertakings from making or giving effect to agreements or decisions or engaging in concerted practices that have as their object or effect the prevention, restriction or distortion of competition in Hong Kong. The second conduct rule prohibits undertakings that have a substantial degree of market power in a market from engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong. The merger rule prohibits mergers that have or are likely to have the effect of substantially lessening competition in Hong Kong. The scope of application of the merger rule is limited to carrier licences issued under the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Pursuant to section 82 of the Competition Ordinance, if the Competition Commission has reasonable cause to believe that (a) a contravention of the first conduct rule has occurred; and (b) the contravention does not involve serious anti-competitive conduct, it must, before bringing proceedings in the Competition Tribunal against the undertaking whose conduct is alleged to constitute the contravention, issue a notice (a “**warning notice**”) to the undertaking.

However, under section 67 of the Competition Ordinance, where a contravention of the first conduct rule has occurred and the contravention involves serious anti-competitive conduct or a contravention of the second conduct rule has occurred, the Competition Commission may, instead of bringing proceedings in the Tribunal in the first instance, issue a notice (an “**infringement notice**”) to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on condition that the person makes a commitment to comply with requirements of the infringement notice. “Serious anti-competitive conduct” means any conduct that consists of any of the following or any combination of the following (a) fixing, maintaining, increasing or controlling the price for the supply of goods or services; (b) allocating sales, territories, customers or markets for the production or supply of goods or services; (c) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services; and (d) bid-rigging.

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## **LAWS AND REGULATIONS**

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In the event of the breaches of the Competition Ordinance, the Competition Tribunal may make orders including: imposing a pecuniary penalty if satisfied that an entity has contravened a competition rule; disqualifying a person from acting as a director of a company or taking part in the management of a company; prohibiting an entity from making or giving effect to an agreement; modifying or terminating an agreement; and requiring the payment of damages to a person who has suffered loss or damage.

### **COMPLIANCE WITH THE RELEVANT REQUIREMENTS**

Our Directors, upon obtaining legal advice, confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had obtained and held all the approvals, permits, consents, licences and registrations required for our business and operations in Hong Kong, and that all of them remain in force.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### HISTORY AND DEVELOPMENT

#### Our history

The history of our Group can be traced back to 1996 when HCC Transportation was incorporated to undertake foundation works and other works in the construction industry in Hong Kong. In 1996, Mr. Chan, our main founder, decided to explore such business opportunities and funded the initial business mainly with his personal savings. Mr. Chan has over 30 years of experience in the construction industry (for further details, please refer to the section headed “Directors, senior management and employees” in this prospectus). Later, HCC Foundations was incorporated in 2009 to provide drainage and earthwork subcontracting services. For the purposes of better administrative arrangement, we started to use HCC Foundations as our principal subsidiary for engaging in foundation works and use HCC Transportation to support such business through the leasing of equipment and motor vehicles. In around 2014, HCC Transportation ceased providing foundation works and instead focused on the aforesaid support function.

#### Our key business milestones

1996	HCC Transportation was incorporated in Hong Kong on 15 October 1996.
2009	HCC Transportation and Mr. Chan were awarded the certificate of commendation for the outstanding achievements in the construction of Fanling Area 36 Phase I by Hong Kong Housing Authority.  HCC Foundations was incorporated in Hong Kong on 14 April 2009.
2013	HCC Transportation was awarded the new works projects – outstanding contractors award (domestic sub-contractor – drainage) for the outstanding performance in construction contract for public housing at Kai Tak site 1B by Hong Kong Housing Authority.
2014	HCC Foundations commenced our first sub-contract works for earthwork (ELS, pile cap, tie beam and steel working platform) with original contract sum of over HK\$100 million.
2015	HCC Foundations commenced our first sub-contract works for ELS, pile cap and associated works with original contract sum of over HK\$200 million.
2016	HCC Foundations was awarded the best safety subcontractor award for the month of September 2016 by Customer B.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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HCC Foundations was awarded the best safety subcontractor award for the third quarter (July to September) of 2016 by Vibro (H.K.) Limited.

2017

HCC Foundations was awarded the outstanding performance in work-at-height safety prize in the building sites – sub-contractors category by Labour Department.

HCC Foundations was awarded the Gold Prize in the building sites – sub-contractors category of the construction industry safety award scheme 2016/2017 by Labour Department.

*Note:* Customer B and Vibro (H.K.) Limited are two of our top five customers during the Track Record Period, further details of which are set out in the section headed “Business – Customers” in this prospectus.

### CORPORATE HISTORY

Our Group consists of our Company and our subsidiaries including our principal operating subsidiary, HCC Foundations. Set out below is the corporate history of our Company and our subsidiaries in Hong Kong.

#### HCC Foundations

HCC Foundations, our principal operating subsidiary, was incorporated as a company with limited liability in Hong Kong on 14 April 2009 with the issued share capital of HK\$1,000 divided into 1,000 shares with nominal value of HK\$1.00 each. At incorporation, HCC Foundations was solely owned by Mr. Chan. HCC Foundations commenced business in 2009.

As part of the Reorganisation, on 27 June 2017, Mr. Chan as vendor, and Art Ventures, as purchaser, entered into a sale and purchase agreement pursuant to which Art Ventures acquired 1,000 shares of HCC Foundations, representing its entire issued shares in aggregate, from Mr. Chan, and in consideration thereof, Art Ventures issued and allotted 1 share, credited as fully paid, to Affluent Century as instructed by Mr. Chan. Upon completion of the aforesaid acquisition, the entire equity interest of HCC Foundations has been held by Art Ventures.

The principal business activity of HCC Foundations is to provide services with respect to foundation works as a subcontractor in Hong Kong.

#### HCC Transportation

HCC Transportation was incorporated by Mr. Chan and Ms. Chu, his spouse, as a company with limited liability in Hong Kong on 15 October 1996 with the issued share capital of HK\$300,000 divided into 100,000 shares with nominal value of HK\$3.00 each. At incorporation, HCC Transportation was owned as to 90% by Mr. Chan and 10% by Ms. Chu. Although Ms. Chu



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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was a shareholder upon incorporation of HCC Transportation, she confirms that she was generally a passive investor and was not a director of HCC Transportation. Accordingly, Ms. Chu is not considered as main founder of our Group.

As part of the Reorganisation, on 27 June 2017, Mr. Chan and Ms. Chu as vendors and Luxury Golden as purchaser, entered into a sale and purchase agreement pursuant to which Luxury Golden acquired 90,000 shares and 10,000 shares of HCC Transportation, representing its entire issued shares in aggregate, from Mr. Chan and Ms. Chu respectively, and in consideration thereof, Luxury Golden issued and allotted 1 share, credited as fully paid, to Affluent Century as instructed by Mr. Chan and Ms. Chu. Upon completion of the aforesaid acquisition, the entire equity interest of HCC Transportation has been held by Luxury Golden.

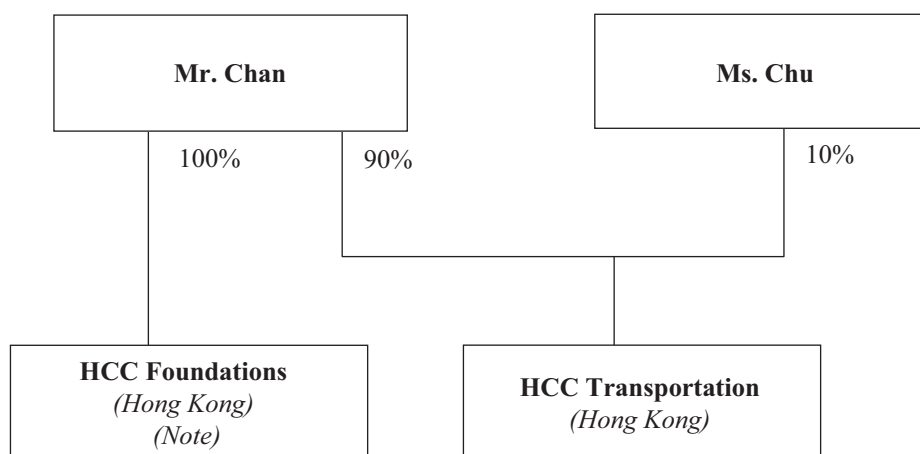
HCC Transportation is principally used to lease equipment and motor vehicles for our Group.

### Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 June 2017. Please refer to the paragraph headed “Further information about our Company and its subsidiaries – 2. Changes in share capital of our Company” in Appendix V to this prospectus for details of changes in the share capital of our Company. Upon completion of the Reorganisation, our Company became the holding company of our Group, details of which are set out in the paragraph headed “Reorganisation” in this section. The principal business of our Company is investment holding.

### GROUP STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately before the Reorganisation:



*Note:* HCC Foundations is our principal operating subsidiary and its principal business activity is the provision of services with respect to foundation works as a subcontractor in Hong Kong.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### REORGANISATION

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation whereby our Company became the ultimate holding company of our Group. The Reorganisation involves the following major steps:

#### **Incorporation of Oriental Castle**

Oriental Castle was incorporated in the BVI with liability limited by shares on 20 March 2017. Oriental Castle is authorised to issue a maximum of 50,000 shares of no par value of a single class. On 5 May 2017, Oriental Castle allotted and issued 90 and 10 ordinary shares of no par value to Mr. Chan and Ms. Chu respectively, for cash consideration of US\$90 and US\$10 respectively.

#### **Incorporation of Affluent Century**

Affluent Century was incorporated in the BVI with liability limited by shares on 16 March 2017. Affluent Century is authorised to issue a maximum of 50,000 shares of no par value of a single class. On 5 May 2017, Affluent Century allotted and issued 1 ordinary share of no par value to Oriental Castle, for cash consideration of US\$1.00.

#### **Incorporation of Art Ventures**

Art Ventures was incorporated in the BVI with liability limited by shares on 20 March 2017. Art Ventures is authorised to issue a maximum of 50,000 shares of no par value of a single class. On 5 May 2017, Art Ventures allotted and issued 1 ordinary share of no par value to Affluent Century, for cash consideration of US\$1.00.

#### **Incorporation of Luxury Golden**

Luxury Golden was incorporated in the BVI with liability limited by shares on 20 March 2017. Luxury Golden is authorised to issue a maximum of 50,000 shares of no par value of a single class. On 5 May 2017, Luxury Golden allotted and issued 1 ordinary share of no par value to Affluent Century, for cash consideration of US\$1.00.

#### **Incorporation of our Company**

On 2 June 2017, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. At the time of incorporation, our Company had an authorised share capital of HK\$100,000.00 divided into 10,000,000 Shares of par value HK\$0.01 each, of which 1 nil-paid subscriber Share was allotted and issued to the initial subscriber, Reid Services Limited, which was then transferred to Oriental Castle on the same day.

### **Acquisition of HCC Foundations and HCC Transportation**

On 27 June 2017, Mr. Chan as vendor, and Art Ventures as purchaser, entered into a sale and purchase agreement, pursuant to which Art Ventures acquired 1,000 ordinary shares of HCC Foundations from Mr. Chan, representing its entire number of issued shares, at the consideration of HK\$52,600,000 (which was determined with reference to the unaudited net assets value of HCC Foundations as at 31 March 2017), and in return, Art Ventures allotted and issued 1 ordinary share credited as fully paid to Affluent Century (with the instruction from Mr. Chan). Upon the completion of the above acquisition on 27 June 2017, HCC Foundations became a wholly-owned subsidiary of Art Ventures.

On 27 June 2017, Mr. Chan and Ms. Chu as vendors, and Luxury Golden as purchaser, entered into a sale and purchase agreement, pursuant to which Luxury Golden acquired 90,000 shares and 10,000 shares of HCC Transportation from Mr. Chan and Ms. Chu respectively, representing its entire number of issued shares in aggregate, at the consideration of HK\$19,700,000 (which was determined with reference to the unaudited net assets value of HCC Transportation as at 31 March 2017), and in return, Luxury Golden allotted and issued 1 ordinary share credited as fully paid to Affluent Century (with the instructions from Mr. Chan and Ms. Chu). Upon the completion of the above acquisition on 27 June 2017, HCC Transportation became a wholly-owned subsidiary of Luxury Golden.

### **Acquisition of Affluent Century by our Company**

On 23 April 2018, Oriental Castle as vendor, and our Company as purchaser, entered into a sale and purchase agreement, pursuant to which our Company acquired 1 ordinary share of Affluent Century (representing its only issued share) from Oriental Castle. The consideration for acquisition was satisfied by (i) our Company credited as fully paid at par the 1 nil-paid Share held by Oriental Castle, and (ii) our Company issued and allotted 9,999 Shares, credited as fully paid, to Oriental Castle.

Upon the completion of the above acquisition on 23 April 2018, Affluent Century became a wholly-owned subsidiary of our Company. The issued share capital of our Company was held as to 100% by Oriental Castle.

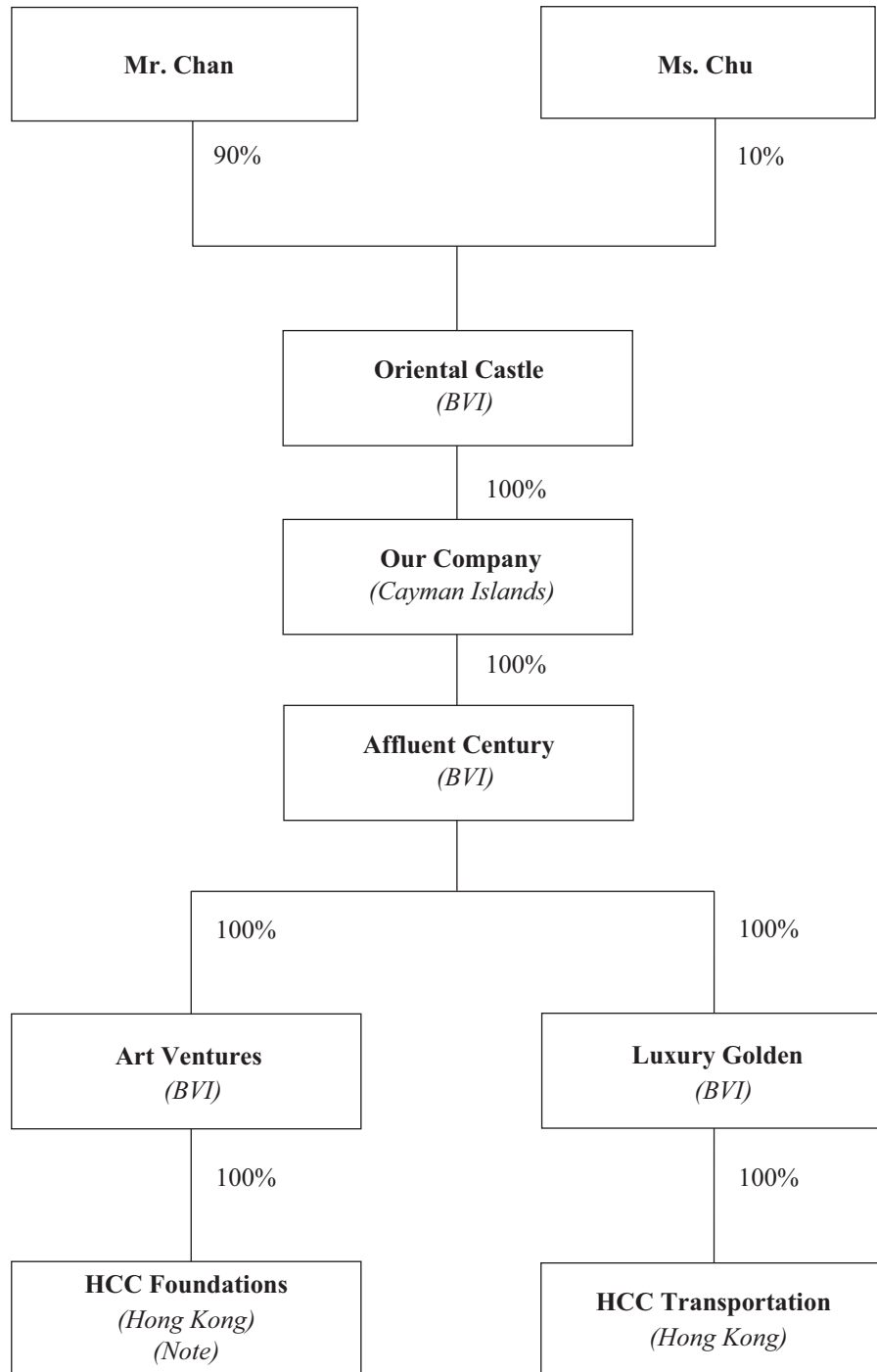
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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### GROUP STRUCTURE

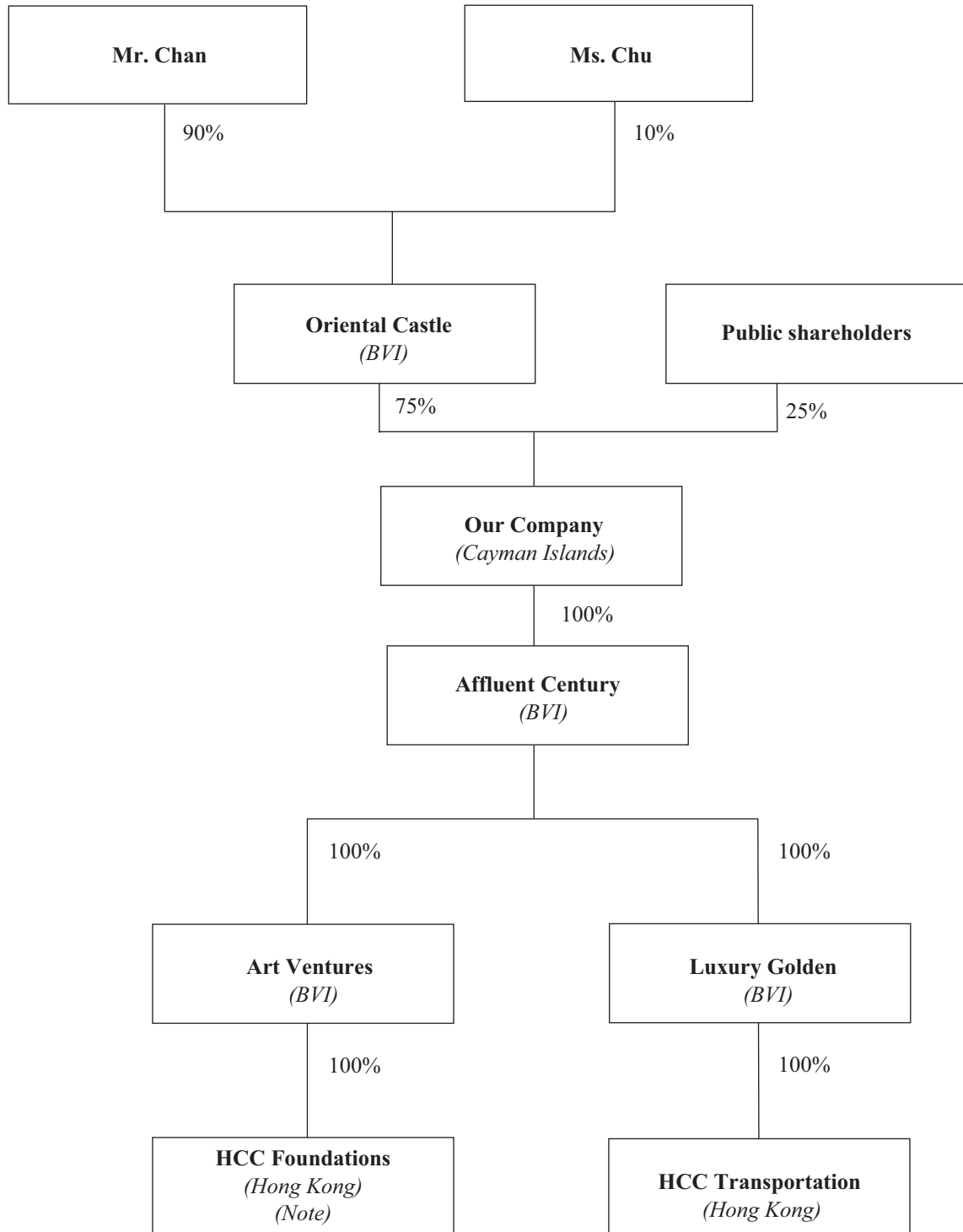
The following chart sets out the shareholding and corporate structure of our Group immediately after the Reorganisation but before the Share Offer and the Capitalisation Issue:



*Note:* HCC Foundations is our principal operating subsidiary and its principal business activity is the provision of services with respect to foundation works as a subcontractor in Hong Kong.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the Share Offer and the Capitalisation Issue (assuming none of the Adjustment Options is exercised and without taking into account the Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme):



*Note:* HCC Foundations is our principal operating subsidiary and its principal business activity is the provision of services with respect to foundation works as a subcontractor in Hong Kong.

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### BUSINESS OVERVIEW

*Our business.* We are a subcontractor engaged in the provision of services related to foundation works in Hong Kong, which include ELS works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks and structural steelworks.

*Our revenue.* For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our total revenue amounted to approximately HK\$259.4 million, HK\$502.1 million, HK\$396.9 million and HK\$206.1 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we had completed 38 projects with a total revenue recognised of approximately HK\$890.3 million. As at the Latest Practicable Date, we had 32 projects on hand with a total awarded original contract sum of approximately HK\$1,037.3 million, of which approximately HK\$474.1 million had been recognised during the Track Record Period. Based on our management's estimation taking into account the respective existing timetable of these projects, each of a sum of approximately HK\$399.3 million and a sum of approximately HK\$72.3 million is expected to be recognised for the year ended/ending 31 March 2019 and 2020, respectively.

During the Track Record Period, we completed 13, 11, 12 and two projects, respectively. Set out below is the breakdown of such projects based on their original contract sum:

Original contract sum	For the year ended 31 March			For the eight months ended
	2015	2016	2017	30 November 2017
	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>
HK\$100,000,000 or above	–	2	1	–
HK\$50,000,000 to below HK\$100,000,000	–	–	1	–
HK\$10,000,000 to below HK\$50,000,000	5	5	7	2
Below HK\$10,000,000	8	4	3	–
	<u>13</u>	<u>11</u>	<u>12</u>	<u>2</u>

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*Our services.* Our services related to foundation works originate from both private sector (including projects where the ultimate employer(s) are property developer(s) and land owner(s)) and public sector (including projects where the ultimate employer(s) are government departments and statutory bodies). The following table sets forth the number of foundation projects handled by us and the breakdown of revenue attributable to public sector projects and private sector projects during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November								
	2015		2016		2017		2016		2017						
	No. of projects handled	% of total revenue	No. of projects handled	% of total revenue	No. of projects handled	% of total revenue	No. of projects handled	% of total revenue	No. of projects handled	% of total revenue	No. of projects handled	% of total revenue			
	Revenue HK\$'000		Revenue HK\$'000		Revenue HK\$'000		Revenue HK\$'000		Revenue HK\$'000		Revenue HK\$'000		Revenue HK\$'000		
	(Unaudited)														
Private sector	22	195,564	75.4	18	446,044	88.8	20	287,935	72.5	15	124,243	61.7	20	67,578	32.8
Public sector	11	63,839	24.6	7	56,009	11.2	11	108,945	27.5	11	77,159	38.3	13	138,537	67.2
<b>Total</b>	<b>33</b>	<b>259,403</b>	<b>100.0</b>	<b>25</b>	<b>502,053</b>	<b>100.0</b>	<b>31</b>	<b>396,880</b>	<b>100.0</b>	<b>26</b>	<b>201,402</b>	<b>100.0</b>	<b>33</b>	<b>206,115</b>	<b>100.0</b>

*Note:* For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our Group had completed 13, 11, 12 and two projects, respectively. For details, please refer to the paragraph headed "Our Projects – Movement of our backlog" in this prospectus.

*Our tender process.* During the Track Record Period, we secured all our foundation projects through tenders. We identify business opportunities by reviewing tender invitations from customers or their consultants and we submit tenders for potential projects. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the tender success rate of our Group was approximately 8.6%, 5.3%, 10.4% and 14.7%, respectively.

*Our customers.* During the Track Record Period, our customers mainly included main contractors in both public and private construction projects in Hong Kong. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our top five customers accounted for approximately 93.6%, 98.1%, 82.0% and 83.7%, respectively of our total revenue, respectively. Our largest customer during the Track Record Period, namely, New Concepts Group, accounted for approximately 48.0%, 55.7%, 5.9% and 11.0%, respectively of our total revenue for the same periods. Our top five customers during the Track Record Period have had business relationship with us for a period ranging from approximately two to 11 years.

*Our suppliers.* During the Track Record Period, our suppliers included suppliers of construction materials such as ready-mix concrete and steel products, transportation services (including waste disposal services), lessors of machineries, repair and maintenance service providers and suppliers of spare parts and consumables such as diesel fuel and personal protective gears. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our five largest suppliers accounted for approximately 65.0%, 81.5%, 77.3% and 73.6% of our total purchases incurred (excluding subcontracting charges incurred), respectively. Our five largest suppliers during the Track Record Period have maintained business relationship with us for a period ranging from approximately two to 11 years.

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*Our subcontractors.* During the Track Record Period, we subcontracted specific parts of a project such as rebar fixing, drainage works and formworks to our subcontractors to save our staff cost. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our top five subcontractors accounted for approximately 85.7%, 87.7%, 85.3% and 80.9% of our total subcontracting charges incurred, respectively. Our five largest subcontractors during the Track Record Period have maintained business relationship with us for a period ranging from approximately one to 11 years.

*Our experience and qualifications.* We have accumulated over 20 years of experience in foundation industry in Hong Kong. Furthermore, our Group holds various construction related licences and qualifications that enable us to bid for and provide services related to foundation works in both private sector and public sector. Each of HCC Foundations and HCC Transportation has become a registered subcontractor with the Construction Industry Council since August 2010 and July 2004, respectively.

### COMPETITIVE STRENGTHS

Our Directors believe our Group possesses the following competitive strengths:

**1. We have an established history and a proven track record as a subcontractor providing services in relation to foundation works**

Founded in 1996, our Group has extensive experience in the construction industry for the provision of services in relation to foundation works in Hong Kong. During the Track Record Period and up to the Latest Practicable Date, we had completed 38 projects and we currently have 32 projects which are in progress. Our Directors believe that over the years, we have established ourselves as a reputable subcontractor capable of providing foundation works related services by delivering quality works on a timely basis and achieving a high level of customer satisfaction, which in turn enables our Group to gain confidence from our customers and increase our opportunities of winning new projects from customers. Furthermore, we have completed a number of remarkable projects for our customers, such as, Project 33, a composite development project involving excavation and pile cap works and Project 16, a composite development involving ELS, pile cap and associated works (both of which have an original contract sum of over HK\$100 million and required a large scale of deep excavation works). We provided a wide range of services relating to foundation works including ELS works, pile caps construction, earthworks, demolition works, underground drainage works and structural steelworks. Capitalising on our technical expertise, experience and our knowledge in the properties of various types of construction materials, we are capable of adopting a pragmatic approach in carrying out our foundation works. Owing to our proven track record in the provision of satisfactory services to our customers, our Group has also received a number of awards from our customers in recognition of our work quality and safety management. For details in relation to the awards granted to our Group, please refer to the paragraph headed “Recognitions and awards” in this section.



**2. We possess a wide range of machinery and equipment to conduct our services related to foundation works**

Our business relies heavily on different heavy and specialised machinery, including loaders, hydraulic excavators, crawler cranes, air compressors, generators, and light drilling rigs etc. Please refer to the paragraph headed “Our machinery fleet” in this section for further details.

We generally acquire machineries from the authorised distributors of reputable manufacturers mainly from Japan. Generally, our in-house technicians will regularly review the condition and functioning of our machinery. As at 30 November 2017, we maintained 142 units of machineries and our machinery and equipment had an aggregate net book value of approximately HK\$18.9 million. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, we invested in new machinery and equipment in an amount of approximately HK\$13.8 million, HK\$17.7 million, HK\$5.7 million and HK\$4.1 million at cost, respectively. We believe that our investment in machinery has improved our position to undertake foundation projects of different scales and complexity. Our Directors also consider that possession of our own fleet of machinery allows us to devise flexible construction plans and apply suitable machinery specifically catered for the needs and requirements of different customers, as well as enables us to schedule our projects and deploy our labour efficiently and effectively.

**3. We have an experienced and dedicated management team and direct workforce**

All our executive Directors have extensive experience and technical knowledge in the construction industry in Hong Kong. As at the Latest Practicable Date, they had been working in the construction industry in Hong Kong for over 30 years. In addition, we have a dedicated team of management that possesses expertise and relevant qualifications on project management, construction safety and financial management, which is crucial for us to ensure that we are able to (i) formulate competitive tenders; and (ii) effectively and efficiently complete the projects awarded to us. Please refer to the section headed “Directors, senior management and employees” of this prospectus for the biographical details of our executive Directors and senior management.

We believe that attributed to the experience and technical knowledge of our executive Directors and members of our management team, we are able to remain competitive and well-positioned in competing for, and securing contracts in the future.

Our executive Directors and management team are supported by a growing and dedicated staff force. As at the Latest Practicable Date, our Group had a team of (i) direct site workers of 179 members, including technical staff and machine operators; and (ii) a project management team of 21 members consisting of project managers, quantity surveyors and foremen, with relevant skills, to ensure that we can complete quality foundation works efficiently.

#### **4. We have stable and long-term relationships with our customers, suppliers and subcontractors**

We have established relationships with our customers. We believe that the quality of our works can be evidenced by the years of relationship between our Group and our customers. We had been providing foundation works to our five largest customers during the Track Record Period for a period ranging from two to 11 years. All of our five largest customers during the Track Record Period are active market players in the construction industry in Hong Kong and our Directors believe that our operating history, together with stable and long-term relationships with our customers would increase our Group's recognition and awareness in the market.

Furthermore, we keep a list of approved suppliers of construction materials and a list of approved subcontractors. Our five largest suppliers have been our suppliers for a period ranging from approximately two to 11 years, and our five largest subcontractors have been our subcontractors for a period ranging from one to ten years. All of our subcontractors possess the relevant qualifications. Our Directors believe that our stable relationship with our subcontractors and suppliers would facilitate (i) a smooth delivery of construction materials or services with good quality to our Group; and (ii) a timely completion of projects with constant quality construction services. The availability of supplies throughout the entire project period is also crucial to our Group's day-to-day operations and future business developments.

### **BUSINESS STRATEGIES**

The principal business objective of our Group is to achieve a sustainable growth and further strengthen our position in the foundation industry in Hong Kong. We intend to achieve our future expansion plans by adopting the following key strategies:

#### **Competing for foundation project and expand our market share particularly for projects originated from the public sector**

Our Group currently intends to deploy more resources towards competing for foundation works originated from the public sector projects as it can enable us to have a more balanced project portfolio and can reduce our reliance on the projects from the private sector. Also, companies bid for the projects from the public sector have to be in compliance with the NRMM Regulation and Subcontractor Registration Scheme. According to the CIC Report, possession of sufficient level of NRMM approved machinery is a prerequisite for tendering projects from the public sectors and constitutes a significant entry barrier. Based on the market analysis of CIC, our Directors believe that the competition in the public sector is less intense than the private sector. Further, our Group intends to compete for public projects so as to capture the business opportunities from the projects originated from the Government's plans to increase public housing supply and restore old buildings. As at the Latest Practicable Date, we have 32 projects on hand and 13 of them are from the public sector. Please refer to the paragraph headed "Projects on hand as at the Latest Practicable Date" in this section for details for our projects on hand.

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When we undertake foundation works originated from the public sector as a subcontractor, if there is a registered specialist contractor who is registered with the Buildings Department under the appropriate category to supervise the works and liaise with the Building Authority, we are not required to be such registered specialist contractor or to obtain any requisite licences, permits or approval for our operation and business except the business registration. Nevertheless, we will adopt the following strategies to enhance our competitiveness to quote for foundation works from our customers engaging public sector works:

1. ensuring that HCC Foundation and/or HCC Transportation remain eligible to be registered on the SRS by satisfying the requirements set out in Rules and Procedures for the Primary Register of the SRS. For details of requirements in respect of the SRS, please refer to the paragraph headed “Laws and regulations – C. Contractor Licensing Regime and operation – Contractor Licensing Regime and the SRS” in this prospectus;
2. acquiring additional NRMM approved machinery so as to comply with the requirements under the phase out plan of the Technical Circular issued by the Works Branch of Development Bureau on 8 February 2015 discussed in the paragraphs below;
3. enhancing our corporate profile and our creditability with our business stakeholders and different customers including contractors and government authorities, and thus, our level of competitiveness in competing for foundation works by Listing, as it is expected that public customers would tend to give preference to contractors who have a public status with good reputation, transparent financial disclosures and regulatory supervision; and
4. using part of our net proceeds from the share offer as general working capital, including financing our payments of the start-up costs at the initial stage of our projects, which in turn enables our Group to undertake more sizeable projects from the public sector and to capture the growth of the foundation industry in Hong Kong.

### **Acquiring additional machinery to strengthen our machinery fleet**

Different types machinery are required for our foundation works. As such, we intend to acquire additional advanced machinery and equipment to enhance our efficiency, capacity and technical capability in performing our works of different scale and complexity. Acquiring more machinery will also enable us to cope with our business development plan to compete for foundation projects and reduce machinery and equipment rental costs. To cope with our imminent need for the projects on hand and newly awarded projects, we plan to acquire 44 excavators and two crawler cranes. The expected total capital expenditure for the acquisition of the aforementioned machineries and equipment will be approximately HK\$40.0 million, which will be financed by the proceeds from the Share Offer. Please refer to the paragraph headed “Our machinery fleet” in this section for further details of our machinery.

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Our Directors believe that acquisition of additional machinery and equipment will allow us to: (i) enhance our efficiency and technical capability; (ii) increase our tender success rate due to the immediate availability of relevant machineries and equipment; (iii) increase our flexibility to deploy our resources more efficiently; and (iv) reduce our machinery and equipment rental costs. Our Directors believe that our possession of machinery and equipment will enable us to cater for projects of larger scale and higher complexity in the future (such as projects which require substantial rock excavation works). Our Group will also continue to evaluate the operating condition, effectiveness and efficiency of our machineries and equipment and assess our need for additional machinery and equipment in accordance with our business development from time to time.

Furthermore, under the phase out plan of the Technical Circular issued by the Works Branch of Development Bureau on 8 February 2015, the contractors being invited to tender or to participate in all new capital works contracts of public works (including design and build contracts) with an estimated contract value exceeding HK\$200 million on or after 1 June 2015, the quantity of exempted excavators and crawler cranes used on site shall not exceed 50%, 20% and 0% of all units on site since 1 June 2015, 1 June 2017 and 1 June 2019, respectively. Please refer to the paragraph headed “Laws and Regulations – NRMM Regulation” of this prospectus for more information about the Technical Circular.

As mentioned above, our Group will deploy more resources towards competing for foundation works originated from the public sector projects. In view of the conditions imposed by the Technical Circular in relation to the quantity of onsite NRMMs exempted excavators and our customers’ requirement in relation to the age of machines and equipment used by us, our Group intends to apply approximately HK\$31.0 million to acquire 44 NRMMs approved excavators so as to satisfy the restrictions imposed by NRMMs and to enhance our competitiveness for competing foundation works originated from public sector projects. For details, please refer to the section headed “Future Plans and Use of Proceeds – Use of proceeds” in this prospectus.

### **Competing for foundation projects and expanding our market share**

According to the CIC Report, it is expected that the gross output value of Hong Kong’s foundation industry will further reach HK\$19.4 billion in 2022, representing a CAGR of approximately 6.9% from 2017 to 2022. As such, our Directors believe that our Group should focus on deploying our resources towards competing for providing our services in more sizeable and profitable foundation projects in Hong Kong. However, the number of projects that can be executed by our Group concurrently at any given time is subject to our then available resources including the availability of our working capital, manpower and machineries from time to time. Foundation projects, regardless of their size and complexity, require the involvement and expertise of our Directors and management team at various stages of the project, such as identifying potential projects, submission of tender and quotation related procedures, project

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planning and administration, and project implementation. In addition, our capacity to carry out various kinds of services related foundation works for our customers also depends on the availability of our machinery and equipment.

Accordingly, the number of projects that can be executed by our Group simultaneously at any given time is limited by the then availability of our resources including the capacity of our machinery and equipment. Thus, our Directors believe that our Group should focus on deploying our resources towards competing for providing services to more sizeable and profitable foundation projects in Hong Kong. Nonetheless, our Directors will also consider competing for and taking on smaller projects under circumstances where (i) our Group has unutilised capacity and resources; (ii) the estimated gross profit margin is attractive to our Group; and (iii) the execution of such projects will not impair the ability of our Group to execute awarded or potential contracts which our Group has tendered or provided quotation for. In particular, our Directors believe, with the support of CIC Report, that there will be a rising supply for public housing units and public infrastructures in the future. Therefore, our Group intends to deploy more resources towards competing for foundation works originated from the public sector projects. As at the Latest Practicable Date, we have 32 projects on hand and 13 of them are from the public sector. Please refer to the paragraph headed “Our Projects – Projects on hand as at the Latest Practicable Date” in this section for details of our projects on hand.

With respect to working capital for foundation projects in Hong Kong, according to the CIC Report, providing surety bonds or personal guarantee by directors/shareholders of construction companies is common in construction industry in Hong Kong. As such, in furtherance of developing our business and undertaking more foundation projects, our Directors believe more customers will tend to request us to provide surety bonds in the long run. As such, our Company intends to utilise approximately HK\$10.0 million, representing approximately 15.4% of the net proceeds from the Share Offer, for satisfying potential customers’ surety bonds requirements.

### **Further expanding our manpower and strengthening the skills of our employees**

We believe that a strong team of staff members equipped with industry knowledge and skills in the construction industry is crucial to our continuing success. In addition, the involvement of our Directors and senior management at different stages of a project, such as preparation and submission of tender and quotation, project implementation and execution, is crucial for us to complete the project on time and to the satisfaction of our customers. In order to cater for the growing demand for services related to foundation works, we intend to expand our human resources in order to drive our business development.

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We intend to strengthen our manpower by hiring 15 additional staff members, including three project managers, three site supervisors, three quantity surveyors and six machine operators. The project managers, site supervisors and quantity surveyors will enhance the project management capabilities of our Group. In view of the increase in number of project on hand from 14 as at 31 March 2016 to 32 as at the Latest Practicable Date, and the increase in aggregate original contract sum of backlog from HK\$516.3 million as at 31 March 2016 to HK\$1,037.3 million as at the Latest Practicable Date, our Directors believe that the hiring of nine additional project team staff is necessary to enhance our Group's ability to supervise and manage our foundation projects and our subcontractors' works in the future. Further, the six additional machine operators will enable our Group to utilise the excavators to be acquired as part of our expansion plan.

In addition, we intend to arrange training workshops or courses for our staff members in relation to the skills and techniques for carrying out various kinds of services in relation to the foundation works, as well as knowledge on occupational health and safety, which are to be conducted either through internal training or by external parties such as other training authorities through sponsorship of admission fees.

In light of the above, we intend to utilise approximately HK\$14.0 million from the proceeds of the Share Offer to strengthen our manpower and to arrange training courses.

### **OUR FOUNDATION WORKS**

We are a subcontractor engaged in the provision of services related to foundation works in Hong Kong. Our projects may include one or more types of works depending on our customers' needs and requirements for their construction projects.

As foundation works are sub-structure in nature and are performed to provide ground or base for construction structures to be built upon it, the type of foundation construction depends upon on several factors, including 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 the sites and economic considerations. The services with respect to the foundation works carried out by our Group involve the following works:

*(a) ELS works*

The general purpose of ELS works is to establish a supported area for deep excavation in order to facilitate subsequent construction of footing foundation or pile caps for further infrastructure development.

ELS works start by the insertion of sheet pile wall/soldier pile wall/pipe pile wall into the soil for the planned excavation. The sheet pile wall can generally prevent the soil from falling from the side and reduce groundwater inflow.



After insertion of the sheet pile wall, excavation will be carried out within the enclosed area between the sheet pile wall. When the level of excavation reaches a specific depth, lateral support will be installed and then, further excavation will be performed again. Lateral support is added to keep the steel pile wall stable for deeper excavation. The steps of excavation and installation of lateral support will be repeated until desired depth of excavation is reached.

Pile caps construction and substructure construction will begin once excavation to the required depth is completed. ELS works are carried out beforehand to facilitate pile caps construction works.

Lateral support works include steel shoring on sheet piled/pipe piled wall, lagging wall construction, soldier piled wall construction, bored piled wall construction, ground water control and dewatering, increasing the resistance of the adjacent ground to movements.



### *(b) Pile caps construction*

Pile caps are built on top of a pile, or a group of piles to transmit the load. Pile caps are considered a part of the foundation and substructure construction. A pile cap is a thick concrete mat that rests on concrete or sheet piles that have been driven into soft or unstable ground to provide a suitable stable foundation. It usually forms a part of the foundation of a building, typically a multi-story building, structure or support base for heavy equipment. The cast concrete pile cap distributes the load of the building into the piles.

Piles are first inserted into the soil followed by the pile caps construction. As a final step, concrete is poured to form a slab as the bottom of the basement.



***(c) Earthworks***

Earthworks involve the removal, moving or adding a required quantity of soil or rock from a particular area to another to create an area of a suitable height and level for a specific construction purpose. This is achieved by excavating an area of ground or by constructing a new area, such as an embankment by adding earth based materials to a certain location.



***(d) Demolition works***

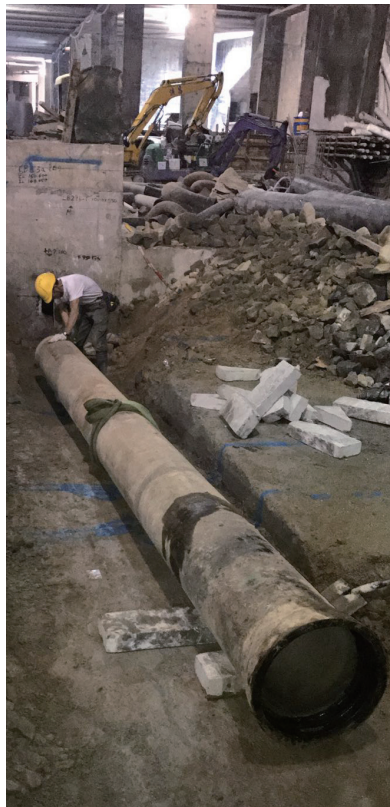
Demolition means dismantling, razing, destroying or wrecking any building or structure or any part thereof by pre-planned and controlled methods. In general, the scope of demolition works include demolition of existing structures and removal of wastes in order to get the construction site ready for next construction step.





*(e) Underground drainage works*

Underground drainage works include the construction and improvement of drains, sewers, water mains and utilities diversion. The type of drainage work we undertake is usually the construction of drainage systems at construction sites.



*(f) Structural steelworks*

Structural steelworks include various steel materials used in the construction of structures and these steel materials are connected with each other through welding and bolting joints. Structural steelworks are widely used in cladding, balustrades, staircases, bridges, high-rise buildings and structural frames of public utilities such as walkways and noise barriers. Structural engineering works in the structural steelworks industry include the planning and design of structures using steel, fabrication of steel as well as installation of the structural steel onsite.



### OUR PROJECTS

In Hong Kong, land owners, property developers or government departments usually initiate construction projects and engage main contractors to take up the responsibility of the overall administration and supervision of the entire construction works, including but not limited to site formation, piling, demolition, erection of architectural superstructures and/or structural alteration, involved in the construction projects. The main contractors may not carry out all the construction works by themselves and thus they may delegate specific works, such as piling works or ELS works, to different subcontractors like our Group. According to the CIC Report, it is a common practice in the construction industry in Hong Kong for main contractors to outsource parts of construction works to subcontractors for the following reasons:

- (i) the subcontractors can perform the same work for lower costs;
- (ii) the main contractor does not have the expertise in certain areas;

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- (iii) the main contractor needs to share project workload due to the large project size and tight deadline; and/or
- (iv) the main contractor does not have the registration required to tender for a particular project.

In light of the above, our Group, as a subcontractor, can obtain projects from main contractors for provision of services in relation to the foundation works. During the Track Record Period, our Group mainly obtained projects from the main contractors through tenders. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the number of projects obtained through tenders from customers was 14, six, 18 and ten, respectively.

The following table sets forth the number of projects tendered and won by our Group for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively:

	For the year ended 31 March			For the eight months ended 30 November
	2015	2016	2017	2017
Number of tenders submitted	162	114	173	68
Number of contracts awarded to our Group	14	6	18	10
Success rate (%)	8.6	5.3	10.4	14.7

*Note:* Tender success rate is calculated by dividing the number of contracts awarded in respect of the tenders submitted during a financial year by the number of tenders submitted during the financial year.

Our Directors confirm that we usually submit tenders in order to keep our presence in the market and keep us abreast of latest market requirements and, which are considered to be useful in preparing similar tenders in future. As such, we recorded a relatively low tender success rate during the Track Record Period as set out in the table above.

Further, our tender success rate for the year ended 31 March 2016 was lower than the tender success rates for other years/period in the Track Record Period because we were at the time occupied with two relatively sizable projects, namely (i) Project 30, a hotel development with an original contract sum of approximately HK\$106 million; and (ii) Project 33, a composite development with an original contract sum of approximately HK\$205.2 million, which had commenced works by the year ended 31 March 2015. Both projects were in full swing in the year ended 31 March 2016. Under such circumstances, given our limited available internal resources at that time, we had to take a relatively prudent approach in costs estimation by factoring a higher profit margin which may have caused our tender price to be less competitiveness or preferable than the tenders submitted by our competitors during the year ended 31 March 2016.

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### Private and public sector projects

During the Track Record Period, we participated in foundation projects from both public and private sectors. Public sector projects generally refer to the projects where the ultimate employer(s) are government departments or statutory bodies while private sector projects generally refer to the projects where the ultimate employer(s) are property developer(s) or land owners. The following table sets forth the revenues generated by both private and public sector projects:

	For the year ended 31 March					For the eight months ended 30 November				
	2015 <i>(approximately HK\$ million)</i>	(%)	2016 <i>(approximately HK\$ million)</i>	(%)	2017 <i>(approximately HK\$ million)</i>	2016 <i>(approximately HK\$ million)</i> <i>(Unaudited)</i>	(%)	2017 <i>(approximately HK\$ million)</i>	(%)	
Private sector projects	195.6	75.4	446.1	88.8	287.9	72.5	124.2	61.7	67.6	32.8
Public sector projects	63.8	24.6	56.0	11.2	109.0	27.5	77.2	38.3	138.5	67.2
<b>Total</b>	<b>259.4</b>	<b>100.0</b>	<b>502.1</b>	<b>100.0</b>	<b>396.9</b>	<b>100.0</b>	<b>201.4</b>	<b>100.0</b>	<b>206.1</b>	<b>100.0</b>

### Projects completed during the Track Record Period and up to the Latest Practicable Date

During the Track Record Period and up to the Latest Practicable Date, we had completed 38 projects. The table below sets forth details of our projects completed during the Track Record Period with an individual original contract sum of not less than HK\$10 million:

#### *For the year ended 31 March 2015*

No.	General particulars of the project	Type of service(s) provided	Commencement date <i>(Note 1)</i>	Completion date <i>(Note 2)</i>	Original contract sum <i>(approximately HK\$ million)</i> <i>(Note 3)</i>	Revenue recognised during the Track Record Period <i>(approximately HK\$ million)</i> <i>(Note 4)</i>
3	Redevelopment of medical centre	Excavation, concreting and underground drainage works	October 2011	July 2014	18.2	FY2015: 1.4 FY2016: –
8	Residential development	Concreting, excavation and underground drainage works	August 2011	June 2014	22.6	FY2015: 0.4

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No.	General particulars of the project	Type of service(s) provided	Commencement date <i>(Note 1)</i>	Completion date <i>(Note 2)</i>	Original contract sum <i>(approximately HK\$ million)</i> <i>(Note 3)</i>	Revenue recognised during the
						Track Record Period <i>(approximately HK\$ million)</i> <i>(Note 4)</i>
9	Residential development	Concreting, excavation and underground drainage works	October 2011	August 2014	17.8	FY2015: 2.9
14	Development of recreational facilities	Excavation, concreting and underground drainage works	September 2011	May 2014	17.6	FY2015: 1.7
29	Hotel development	ELS and pile cap works	November 2013	May 2014	15.2	FY2015: 0.8

*Notes:*

1. This refers to the commencement date of actual work based on our direct labour's work records.
2. Unless otherwise specified, this refers to the last payment application for work done in a monthly interval made by our Company to the respective customer or the completion date as certified by the respective customer or its representative.
3. Original contract sum excludes any variation orders or adjustments in contract sum after the award of contract.
4. "FY2015" denotes the financial year ended 31 March 2015 and "FY2016" denotes the financial year ended 31 March 2016.

***For the year ended 31 March 2016***

No.	General particulars of the project	Type of service(s) provided	Commencement date <i>(Note 1)</i>	Completion date <i>(Note 2)</i>	Original contract sum <i>(approximately HK\$ million)</i> <i>(Note 3)</i>	Revenue recognised during the
						Track Record Period <i>(approximately HK\$ million)</i> <i>(Note 4)</i>
12	Residential development	ELS and pile cap works	September 2013	May 2015	40.2	FY2015: 0.6 FY2016: 0.1
15	Residential development	ELS works	October 2014	March 2016	13.4	FY2015: 6.9 FY2016: 6.5



## BUSINESS

No.	General particulars of the project	Type of service(s) provided	Commencement date <i>(Note 1)</i>	Completion date <i>(Note 2)</i>	Original contract sum <i>(approximately HK\$ million) (Note 3)</i>	Revenue recognised during the
						Track Record Period <i>(approximately HK\$ million) (Note 4)</i>
16	Composite development	ELS, pile cap and associated works	July 2014	August 2015	112.6	FY2015: 60.2 FY2016: 55.0
17	Residential development	Excavation and underground drainage works	March 2014	October 2015	46.3	FY2015: 46.4 FY2016: 2.2
19	Composite development	ELS and pile cap works	December 2013	October 2015	10.3	FY2015: 4.9 FY2016: 2.4
30	Hotel development	ELS, raft footing and basement wall	October 2014	February 2016	106.0	FY2015: 10.5 FY2016: 87.1 FY2017: 27.4
31	Logistic facilities development	Excavation and underground drainage works	November 2014	November 2015	28.5	FY2015: 10.3 FY2016: 16.9 FY2017: –

*Notes:*

1. This refers to the commencement date of actual work based on our direct labour's work records.
2. Unless otherwise specified, this refers to the last payment application for work done in a monthly interval made by our Company to the respective customer or the completion date as certified by the respective customer or its representative.
3. Original contract sum excludes any variation orders or adjustments in contract sum after the award of contract.
4. "FY2015" denotes the financial year ended 31 March 2015, "FY2016" denotes the financial year ended 31 March 2016 and "FY2017" denotes the financial year ended 31 March 2017.

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*For the year ended 31 March 2017*

No.	General particulars of the project	Type of service(s) provided	Commencement date <i>(Note 1)</i>	Completion date <i>(Note 2)</i>	Original contract sum <i>(approximately HK\$ million) (Note 3)</i>	Revenue recognised during the Track Record Period <i>(approximately HK\$ million) (Note 4)</i>
7	Redevelopment of correctional facility	Concreting, excavation and underground drainage works	September 2012	November 2016	19.0	FY2015: 10.0 FY2016: 10.6 FY2017: 4.1 30 November 2017: 1.9
24	Residential development	ELS and pile cap construction works	January 2014	December 2016	10.5	FY2015: 11.9 FY2016: 0.3 FY2017: 0.8 30 November 2017: 0.6
25	Residential development	ELS and pile cap construction works	February 2014	December 2016	10.6	FY2015: 10.8 30 November 2017: 0.8
33	Composite development	Excavation and pile cap works	February 2015	April 2016	205.2	FY2015: 5.8 FY2016: 214.1 FY2017: 7.5
47	Hotel development	Structural steelworks	September 2016	February 2017	81.4	FY2017:103.1
48	Commercial development	Disposal and foundation works	October 2016	January 2017	12.8	FY2017:15.8
49	Residential development	Site formation, ELS, pile cap and basement slab construction works	December 2016	February 2017	24.4	FY2017: 31.1
50	Comprehensive development	Disposal of excavated materials	December 2016	March 2017	13.2	FY2017: 15.8
51	Development of recreational facilities	Supply and install temporary working platform, disposal and backfilling works	September 2016	February 2017	14.3	FY2017: 16.4

## BUSINESS

*Notes:*

1. This refers to the commencement date of actual work based on our direct labour's work records.
2. Unless otherwise specified, this refers to the last payment application for work done in a monthly interval made by our Company to the respective customer or the completion date as certified by the respective customer or its representative.
3. Original contract sum excludes any variation orders or adjustments in contract sum after the award of contract.
4. "FY2015" denotes the financial year ended 31 March 2015, "FY2016" denotes the financial year ended 31 March 2016, "FY2017" denotes the financial year ended 31 March 2017 and "30 November 2017" denotes the eight months period ended 30 November 2017.

***From 1 April 2017 to the Latest Practicable Date***

No.	General particulars of the project	Type of service(s) provided	Commencement		Original contract sum (approximately HK\$ million) (Note 3)	Track Record	Revenue recognised from
			date (Note 1)	Completion date (Note 2)		Period (approximately HK\$ million) (Note 4)	1 December 2017 to the Latest Practicable Date (approximately HK\$ million)
52	Residential development	Disposal of excavated materials	October 2016	July 2017	18.2	FY2017: 20.7 30 November 2017: 1.8	-
56	Composite development	Excavation and underground drainage works	March 2017	July 2017	16.8	30 November 2017: 10.6	-

*Notes:*

1. This refers to the commencement date of actual work based on our direct labour's work records.
2. Unless otherwise specified, this refers to the last payment application for work done in a monthly interval made by our Company to the respective customer or the completion date as certified by the respective customer or its representative.
3. Original contract sum excludes any variation orders or adjustments in contract sum after the award of contract.
4. "FY2017" denotes the financial year ended 31 March 2017 and "30 November 2017" denotes the eight months period ended 30 November 2017.



## BUSINESS

### Projects on hand as at the Latest Practicable Date

As at the Latest Practicable Date, we had 32 projects on hand with a total original contract sum of approximately HK\$1,037.3 million and out of which a total revenue of approximately HK\$474.1 million had been recognised during the Track Record Period, details of which are set out below:

No.	General particulars of the project	Type of service(s) provided	Commencement		Original contract sum (approximately HK\$ million) (Note 3)	Revenue recognised	Amount of revenue to be recognised after the Track Record Period as estimated by management (approximately HK\$ million)
			date (Note 1)	Completion date (Note 2)		during the Track Record Period (approximately HK\$ million) (Note 4)	
21	Residential development	Excavation, ELS works, and underground drainage works	May 2014	May 2018	18.4	FY2015: 7.5 FY2016: 9.1 FY2017: 4.6	7.4
26 (Note 6)	Residential development	Excavation and underground drainage works	June 2013	September 2018	51.3	FY2015: 23.2 FY2016: 10.9 FY2017: 5.3 30 November 2017: 4.2	8.0
27 (Note 6)	Residential development	Excavation and underground drainage works	February 2013	March 2018	36.9	FY2015: 12.4 FY2016: 22.0 FY2017: 0.2	12.8
32 (Note 6)	Development of education and recreational facilities	Pre-bored socketed H-pile, site formation, substructure and drainage work	November 2014	September 2018	5.6	FY2015: 0.7 FY2016: 1.8 FY2017: 2.6	1.0
34	Development of education facilities	Excavation and underground drainage works	March 2015	March 2018	36.7	FY2016: 37.7 FY2017: 7.1 30 November 2017: 0.7	12.7
36 (Note 6)	Residential development	Excavation and underground drainage works	November 2015	May 2018	63.9	FY2016: 7.7 FY2017: 27.7 30 November 2017: 22.9	14.9

## BUSINESS

No.	General particulars of the project	Type of service(s) provided	Commencement		Original contract sum (approximately HK\$ million) (Note 3)	Revenue recognised	Amount of revenue
			date (Note 1)	Completion date (Note 2)		during the Track Record Period (approximately HK\$ million) (Note 4)	to be recognised after the Track Record Period as estimated by management (approximately HK\$ million)
37	Commercial development	Excavation, ELS, pile cap construction works	February 2016	March 2018	36.7	FY2016: 4.7 FY2017: 33.3	3.2
38 (Note 6)	Residential development	Excavation and underground drainage works	April 2016	March 2018	7.9	FY2017: 1.9 30 November 2017: 1.0	5.0
39 (Note 6)	Residential development	Excavation and underground drainage works	June 2016	January 2019	38.7	FY2017: 20.5 30 November 2017: 6.2	12.0
40 (Note 6)	Residential development	Excavation and pile cap construction works	June 2016	May 2018	20.2	FY2017: 17.0 30 November 2017: 1.5	1.6
41	Residential development	Site formation, ELS, foundation and construction works	January 2017	May 2018	8.4	FY2017: 1.2 30 November 2017: 4.9	2.3
42	Residential development	Underground drainage works	September 2016	March 2018	4.0	FY2017: 2.0 30 November 2017: 0.4	1.6
43 (Note 6)	Residential development	ELS, pile cap and associate works	October 2016	May 2018	36.3	FY2017: 8.5 30 November 2017: 21.9	5.8
44	Residential development	Formation of the vehicular access road works	October 2016	March 2018	6.1	FY2017: 6.1	-
45	Residential development	Underground drainage works	October 2016	June 2018	1.7	FY2017: 1.0 30 November 2017: 0.3	0.3

## BUSINESS

No.	General particulars of the project	Type of service(s) provided	Commencement		Original contract sum (approximately HK\$ million) (Note 3)	Revenue recognised	Amount of revenue
			date (Note 1)	Completion date (Note 2)		during the Track Record Period (approximately HK\$ million) (Note 4)	to be recognised after the Track Record Period as estimated by management (approximately HK\$ million)
46	Residential development	ELS and pile cap construction works	September 2016	December 2018	15.6	FY2017: 9.7 30 November 2017: 7.5	-
54	Industrial building development	Excavation, ELS and pile cap construction works	April 2017	March 2018	4.9	30 November 2017: 1.6	3.3
55	Commercial development	Excavated material disposal and plant rental	January 2017	March 2018	20.3	FY2017: - 30 November 2017: 12.1	8.2
57 (Note 6)	Residential development	Excavation and underground drainage works	May 2017	May 2018	17.0	30 November 2017: 3.5	13.5
58 (Note 6)	Residential development	Excavation and underground drainage works	May 2017	May 2018	12.4	30 November 2017: 2.4	10.1
59 (Note 6)	Development of public facilities	Structural steelworks	December 2017	November 2018	74.7	30 November 2017: 11.2	63.5
60 (Note 6)	Development of public facilities	Structural steelworks	July 2017	July 2018	63.7	30 November 2017: 60.1	3.5
61	Comprehensive development	Excavated material disposal	April 2017	April 2018	7.5	30 November 2017: 6.6	0.9
62	Commercial development	ELS and pile cap works	July 2017	January 2019	24.0	30 November 2017: 2.6	21.4
63	Hotel development	Pipe piling, earthworks, ELS and pile cap works	July 2017	January 2019	33.4	30 November 2017: 6.3	27.1
64	Residential Development	Site formation, ELS, foundation, footing and pile cap construction works	September 2017	September 2018	9.4	30 November 2017: 4.7	4.7

## BUSINESS

No.	General particulars of the project	Type of service(s) provided	Commencement		Original contract sum (approximately HK\$ million) (Note 3)	Revenue recognised	Amount of revenue
			date (Note 1)	Completion date (Note 2)		during the Track Record Period (approximately HK\$ million) (Note 4)	to be recognised after the Track Record Period as estimated by management (approximately HK\$ million)
65	Residential Development	Pile cap and ELS works	October 2017	October 2018	3.4	-	3.4
66	Residential Development	Pile cap, ELS and temporary steel platform works	October 2017	October 2018	8.2	30 November 2017: 1.1	7.2
67	Residential development	Site formation, ELS and temporary steel platform	November 2017	November 2019	140.0	30 November 2017: 3.9	136.1
68 (Note 6)	Redevelopment of health facilities	Excavation and temporary shoring installing works	Not yet commenced	January 2019	64.2	-	64.2
69	Residential development	ELS, pile cap and basement structural work	December 2017	November 2019	79.9	-	79.9
70	Residential development	Pile pile, soldier pile, sheet pile and socketed h-pile works	December 2017	November 2019	85.9	-	85.9

*Notes:*

1. Unless otherwise specified, this refers to the contract date, the commencement date specified in the contract or the instruction issued by the customer's representative pursuant to the contract.
2. Unless otherwise specified, this refers to the expected completion date estimated by management.
3. Original contract sum and the amount of revenue to be recognised after the Track Record Period exclude any variation orders or adjustments in contract sum after the award of contract.
4. "FY2015" denotes the financial year ended 31 March 2015, "FY2016" denotes the financial year ended 31 March 2016, "FY2017" denotes the financial year ended 31 March 2017 and "30 November 2017" denotes the eight months period ended 30 November 2017.
5. The project was awarded after the Track Record Period and thus no revenue was recognised during the Track Record Period.
6. These projects are from public sector.

## BUSINESS

### Movement of our backlog

The following table sets forth the movement of backlog of our projects, representing the total original contract value of works which yet to be completed pursuant to the terms of the outstanding contracts as the date indicated below and assuming due performance in accordance with terms of the contract, during the Track Record Period:

	2015		For the year ended 31 March 2016		2017		For the eight months ended 30 November 2017		For the period from 1 December 2017 to the Latest Practicable Date	
	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000 (Unaudited)	Number of contracts attributed (Unaudited)	Approximately HK\$'000 (Unaudited)	Number of contracts attributed
Opening aggregate original contract sum of backlog	313,019.4	20	743,186.4	20	516,272.9	14	426,603.0	18	807,125.0	29
Aggregate original contract sum of new contracts commenced ( <i>Note</i> )	541,216.4	13	141,479.7	5	323,554.4	16	415,566.8	13	230,206.4	3
Aggregate original contract sum of completed contracts	(111,049.4)	(13)	(368,393.2)	(11)	(413,224.3)	(12)	(35,044.8)	(2)	-	-
Closing original contract sum of backlog	<u>743,186.4</u>	<u>20</u>	<u>516,272.9</u>	<u>14</u>	<u>426,603.0</u>	<u>18</u>	<u>807,125.0</u>	<u>29</u>	<u>1,037,331.4</u>	<u>32</u>

*Note:* The original contract sum is based on the initial agreement between our customer and us and does not include additions and modifications due to subsequent variation orders. As such final revenue recognised from a contract may differ from the original contract sum.

The following table sets forth the movement of backlog of our projects originated from the private sector:

	2015		For the year ended 31 March 2016		2017		For the eight months ended 30 November 2017		For the period from 1 December 2017 to the Latest Practicable Date	
	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000 (Unaudited)	Number of contracts attributed (Unaudited)	Approximately HK\$'000 (Unaudited)	Number of contracts attributed
Opening aggregate original contract sum of backlog	159,240.7	13	622,959.8	15	332,109.1	8	165,815.0	10	378,408.0	17
Aggregate original contract sum of new contracts commenced ( <i>Note</i> )	531,392.0	9	76,321.3	3	220,510.4	12	247,637.8	9	165,850.0	2
Aggregate original contract sum of completed contracts	(67,672.9)	(7)	(367,172.0)	(10)	(386,804.5)	(10)	(35,044.8)	(2)	-	-
Closing original contract sum of backlog	<u>622,959.8</u>	<u>15</u>	<u>332,109.1</u>	<u>8</u>	<u>165,815.0</u>	<u>10</u>	<u>378,408.0</u>	<u>17</u>	<u>544,258.0</u>	<u>19</u>

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*Note:* The original contract sum is based on the initial agreement between our customer and us and does not include additions and modifications due to subsequent variation orders. As such final revenue recognised from a contract may differ from the original contract sum.

The following table sets forth the movement of backlog of our projects originated from the public sector:

	For the year ended 31 March				For the eight months ended 30 November 2017				For the period from 1 December 2017 to the Latest Practicable Date	
	2015	2016	2016	2017	2017	2017	2017	2017	2017	2017
	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed	Approximately HK\$'000	Number of contracts attributed (Unaudited)	Approximately HK\$'000 (Unaudited)	Number of contracts attributed (Unaudited)
Opening aggregate original contract sum of backlog	153,778.7	7	120,226.6	5	184,163.8	6	260,788.0	8	428,717.0	12
Aggregate original contract sum of new contracts commenced (Note)	9,824.4	4	65,158.4	2	103,044.0	4	167,929.0	4	64,356.4	1
Aggregate original contract sum of completed contracts	(43,376.5)	(6)	(1,221.2)	(1)	(26,419.8)	(2)	-	-	-	-
Closing original contract sum of backlog	<u>120,226.6</u>	<u>5</u>	<u>184,163.8</u>	<u>6</u>	<u>260,788.0</u>	<u>8</u>	<u>428,717.0</u>	<u>12</u>	<u>493,073.4</u>	<u>13</u>

*Note:* The original contract sum is based on the initial agreement between our customer and us and does not include additions and modifications due to subsequent variation orders. As such final revenue recognised from a contract may differ from the original contract sum.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we were awarded two additional foundation projects with a total original contract sum of approximately HK\$165.9 million, which were (i) Project 69; and (ii) Project 70.

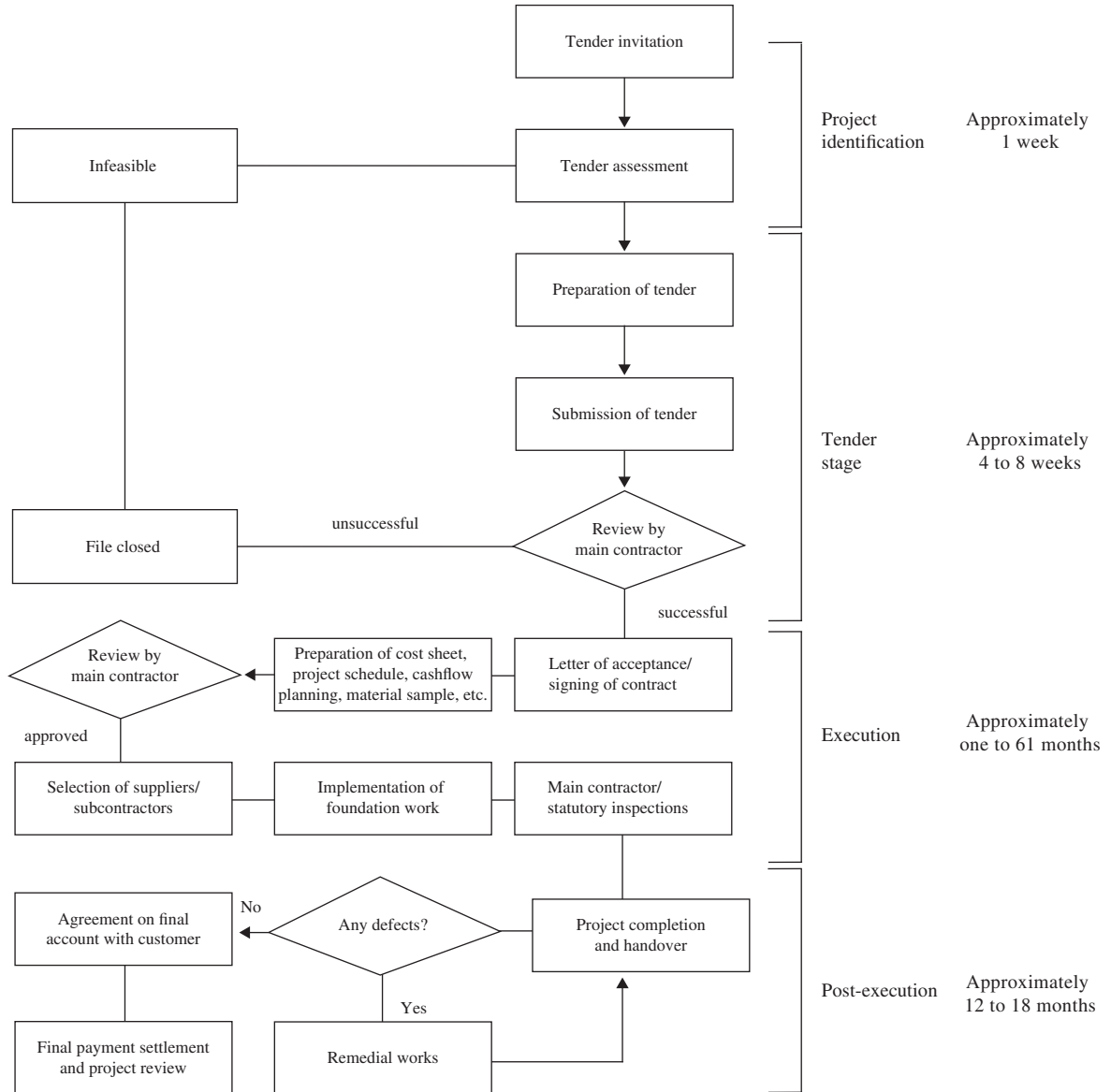
As at the Latest Practicable Date, we had 32 contracts on hand with a total outstanding contract value of approximately HK\$458.8 million. Based on the management's estimation, taking into account the respective existing timetable and progress, approximately HK\$386.5 million and approximately HK\$72.3 million are expected to be recognised for years ending 31 March 2019 and 31 March 2020, respectively.

# BUSINESS

## OPERATION FLOW

### Our foundation works

For illustration purpose, we set our below a simplified flow diagram of our key operational procedures relating to our foundation projects:



### **Project identification**

Our projects are generally awarded through tender by invitation. We are usually invited by our customers, who are mainly main contractors of various types of public infrastructures, commercial and residential building projects in Hong Kong, by way of invitation letters, invitation email/text messages or verbal invitations. We usually perform site visits to evaluate the project site and thus formulate an execution plan for the provision of foundation work related services. Information such as site location, photos and site investigation report would be provided.

### **Tender assessment and feasibility study**

After receiving the tender or quotation details, our tendering and contracts department will make preliminary assessment of the tender. In our assessment and feasibility study, in considering whether to bid for the tender, we generally take into account the following factors, namely (i) the profitability of the project; (ii) the feasibility of undertaking such project with reference to the technical specifications, our capacity and expertise, our available labour and financial resources; (iii) cost of materials and labours; (iv) project schedule; (v) quality expectation; and (vi) preliminary safety and environmental risk analysis and other relevant risk factors associated with such project. Our executive Directors will then decide whether to bid for the tender after considering all relevant factors. We may decline a tender invitation if our then prevailing resources are already taken up by other projects.

Our Group has adopted preventive measures to ensure our tendering process would not contravene the Competition Ordinance (Chapter 619 of the Laws of Hong Kong), including not colluding with other market participants on any parameter of competition such as price and output. Our staff members are prohibited to enter into any kind of arrangements or agreements with our Group's competitors in the market that will cause price fixing, output restriction, market sharing or the rigging of potential bids or to conduct any acts which aims to prevent, restrict or distort competition in Hong Kong. Our Directors confirm that we will regularly seek legal advice on whether our arrangements comply with the Competition Ordinance.

If our Directors consider that a project is commercially viable, our tendering and contracts department will proceed to prepare for the submission of tender. Prior to the preparation of the tender documents, our tendering and contracts department will first review the project requirements in detail, obtain quotations from suppliers and subcontractors, and if necessary, preliminary price of the project items. For details of our pricing strategy, please refer to the paragraph headed "Pricing strategy" in this section.

### **Project acceptance**

Upon receipt of our tender, our customer may, by way of interview or enquiries, clarify with us the particulars of our submitted tender. Once our customer decides to engage us, it will inform us of its acceptance of our tenders by a letter of acceptance. A formal agreement will be entered into between our customer and our Group. For details of the salient terms of our typical contract, please refer to the paragraph headed "Major contract terms with our customers" in this section.



### Project execution

Depending on the scale and complexity of individual projects, a project team is formed for each project which generally comprises the following key personnel: project manager, quantity surveyor, foreman and safety officer. Our project team will then work out a preliminary plan for carrying out the project in order to ensure that the project can be executed effectively and efficiently. This preliminary plan also contains the arrangements with subcontractors (if applicable) and/or suppliers (if necessary), the deployment of labour and general health, safety and environmental plans for the project.

The table below sets out the major responsibilities of each key member in a project team:

Project manager	<ul style="list-style-type: none"><li>• Conduct overall planning and supervise overall workforce on site</li><li>• Monitor work efficiency</li><li>• Ensure compliance with contractual and statutory requirements as well as internal quality environmental and safety policies</li></ul>
Quantity surveyor	<ul style="list-style-type: none"><li>• Inspect work progress on site and prepare payment application</li><li>• Update project manager with the latest certified progress from our customers</li></ul>
Foreman	<ul style="list-style-type: none"><li>• Supervise workers and subcontractors on site</li><li>• Procure materials and check all the relevant machinery and hand tools on site (if any) are maintained in good conditions</li><li>• Organise site works to be carried out to the required standard</li></ul>

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## BUSINESS

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|----------------|---|
| Safety officer | <ul style="list-style-type: none"><li>• Perform check and inspection on site safety</li><br/><li>• Attend safety meetings with our Directors</li><br/><li>• Ensure compliance of site staff with the applicable safety laws and regulations, site safety instructions and our guidelines</li><br/><li>• Arrange and provide safety training with the main contractors to all workers on site</li><br/><li>• Investigate, record and report industrial accidents</li></ul> |
|----------------|---|

Our project team is responsible for monitoring the work progress, costs incurred and quality of our works in carrying out the works under a contract in order to ensure that both our customer's requirements and statutory requirements are met. Generally, the project team is required to report to our Directors and senior management through meetings at the site or through mobile application software on an daily basis on the (i) progress of the works; (ii) the quality of works; and (iii) costs incurred by the works so as to ensure that the project progress is in accordance with the schedule set by our customers and to allocate sufficient resources such as staff and machinery and equipment for the project. The project team will also be responsible for preparing the payment application, based on the amount of works completed on a monthly basis and submit the payment application to the customers or their representatives for certifying the actual work done under the contract. Our Directors confirmed that our Group had not experienced any material disputes with our customers in our foundation project during the Track Record Period.

Our Directors consider that maintaining effective and frequent communications with customers is important to enhance our customers' satisfaction on our services . In this regard, we host meetings between our customers, subcontractors and us during various stages of the project in order to review the process of the construction. We also review our subcontractors' works in order to ensure that they (i) meet our quality and safety requirements; (ii) comply with the contractual requirements; and (iii) adhere to our internal control measures. Our customers may request our Group to perform additional or variation works on the project, which may entitle us to additional payments under the variation orders, instructions and seeking feedback from our customers.

On the other hand, our project team is also responsible for engaging and procuring suitable subcontractors and/or materials if required under the projects. For details of procurement of subcontractors and suppliers, please refer to the paragraphs respectively headed "Subcontracting" and "Suppliers" in this section.

If the project requires additional machineries and/or equipment to meet the project requirements, our project team will also be responsible to provide such additional machineries and equipment for rental.

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## BUSINESS

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### **Post-execution**

After we have completed all the site works and the professional representatives of the customers have certified the works duly completed (if so required under the contract), the defect liability period, which normally lasts for six to 12 months, will commence. During this period, we are liable to make good the defects of the works identified caused by either defective materials, goods or substandard workmanships. If our customers have withheld retention money under the contract, the customers will release part of the retention money to us upon completion of the works under the contract.

When the defect liability period expires, the professional representatives of the customers will carry out an on-site joint inspection. After they have certified that there are no uncompleted items of works for the contract, the remaining retention money will be released to us.

### **Variation orders**

Our customer may, in the course of project execution, place additional orders concerning variation to part of the works that are necessary for completion of the project. Such orders are commonly referred to as variation orders. Variation orders may include (i) additions, omissions, substitutions, alterations, changes in quality, form, character, kind, position or dimension; (ii) changes to any sequence, method or timing of construction specified in the original contract; and (iii) changes to the site or entrance to and exit from the site. We will discuss with our customers in order to mutually agree on the sum of variation orders which may be added to or deducted from the contract sum mainly with respect to the rate of works as set out in the original contract. We are usually notified of a variation order by way of a letter from our customers setting out the detailed works to be carried out pursuant to such variation order. We will then obtain quotation from our subcontractors and prepare and submit the rate for such variation order to our customers for approval. The principal terms and settlement of variation orders are generally in line with the terms of the original contract.

### **Machinery rental**

Our machinery is usually mobilised among the construction sites. Unutilised machinery will be temporarily stored in our open storage located in Yuen Long, the New Territories. Occasionally, some of our machines are leased to third party construction companies when they are not in use. During the Track Record Period, we leased our machinery to customers if the machinery was not required for other projects. However, our Directors confirm that we do not actively seek or intend to actively pursue business opportunities in machinery leasing as such activities are conducted only for increasing utilisation of idling resources.

Our rental charges are determined by the duration and rate of usage and whether an operator for the machinery is required. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the aggregate of income derived from leasing of machinery to other parties amounted to approximately HK\$473,000, HK\$1,055,000, HK\$388,000 and HK\$2,406,000, respectively.

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## BUSINESS

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### SALES AND MARKETING

During the Track Record Period, our business opportunities mainly arose from two sources: (i) tender invitations; and (ii) referrals from customers. As such, we do not rely on promotional activities. Our Directors believe that our reputation in the foundation industry, proven track record and well-established relationship with our existing customers all enable us to capture business opportunities through the abovementioned sources. We do not maintain a specialised team of sales and marketing staff and our Directors are responsible for liaising and maintaining our relationship with customers. Moreover, our Directors believe that the Listing will be a breakthrough in promoting our Group to the construction industry as well as the general public and hence, further enhancing our Group and future business development.

### PRICING STRATEGY

Our pricing is determined based on a cost-plus pricing model in general with a markup, which is determined on a project-by-project basis. We estimate our cost of undertaking a project with reference to the following factors:

- the nature, scope and complexity of the works involved;
- the availability of our manpower, machinery and resources (including financial resources);
- the material costs and subcontracting charges involved in the project; and
- the expected project timetable and completion time requested by the customer.

Revisions to the cost plan may be made after identifying the cause of the changes in the estimated costs and establishing measures to keep the estimated costs in control such as requesting for additional fees from customers and closely supervising our subcontractors' performance and progress of work to keep up with the project schedule. It is important for us to accurately assess the cost taking into account the factors set out above for the project prior to entering into service contracts with our customers to avoid over or under-budgeted and ensure that adequate profit from the relevant project can be generated. We have in place a series of cost assessment procedures in order to have an accurate assessment and analysis of the costs to be incurred by our Group as the subcontractor in the project. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any loss-making projects as a result of material inaccurate estimation or cost overruns.

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## BUSINESS

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### CUSTOMERS

During the Track Record Period, our customers mainly included main contractors of public and private construction projects in Hong Kong. Set out below is a breakdown of our revenue by major customers:

#### For the year ended 31 March 2015

Customer	Revenue <i>(approximately HK\$'000)</i>	Approximate percentage to the revenue of our Group for that year  <i>(%)</i>	Principal business or sector of the customer	The calendar year in which the customer first started to have business relationship with our Group
New Concepts Group	124,498.4	48.0	A contractor, which consists of two subsidiaries of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of these two subsidiaries include foundation and civil engineering works.	2014
Customer B	37,825.1	14.6	A subcontractor, which is a subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include the provision of subcontracting services in relation to building construction works. The parent company of Customer B is a subsidiary of another publicly listed company whose shares are listed on the Main Board of the Stock Exchange.	2009
Customer C	37,750.7	14.6	A subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include construction, maintenance, renovation, design and build of building projects.	2007

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Customer	Revenue <i>(approximately HK\$'000)</i>	Approximate percentage to the revenue of our Group for that year  <i>(%)</i>	Principal business or sector of the customer	The calendar year in which the customer first started to have business relationship with our Group
Vibro (H.K.) Limited	27,334.4	10.5	A subsidiary of NWS Holdings Limited (stock code: 0659), the shares of which are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include piling, ground investigation and civil engineering. NWS Holdings Limited is a subsidiary of New World Development Company Limited (stock code: 17), the shares of which are listed on the Main Board of the Stock Exchange.	2014
Ming Shing Construction Engineering Company Limited	15,296.7	5.9	A contractor in the construction industry and a company incorporated in Hong Kong.	2015
Five largest customers combined	242,705.3	93.6		
All other customers	16,697.7	6.4		
Total	<u>259,403.0</u>	<u>100.0</u>		

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### For the year ended 31 March 2016

Customer	Revenue (approximately HK\$'000)	Approximate percentage to the revenue of our Group for that year (%)	Principal business or sector of the customer	The calendar year in which the customer first started to have business relationship with our Group
New Concepts Group	279,488.7	55.7	A contractor, which consists of two subsidiaries of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of these subsidiaries include foundation and civil engineering works.	2014
Ming Shing Construction Engineering Company Limited	91,546.9	18.2	A contractor in the construction industry and a company incorporated in Hong Kong.	2015
Customer B	79,459.4	15.8	A subcontractor, which is a subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include the provision of subcontracting services in relation to building construction works. The parent company of Customer B is a subsidiary of another publicly listed company whose shares another are listed on the Main Board of the Stock Exchange.	2009
Customer C	32,856.0	6.5	A subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include construction, maintenance, renovation, design and build of building projects.	2007
Customer F	9,140.3	1.8	A contractor in the construction industry and a company incorporated in Hong Kong.	2010
Five largest customers combined	492,491.3	98.1		
All other customers	9,561.8	1.9		
Total	<u>502,053.1</u>	<u>100.0</u>		

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### For the year ended 31 March 2017

Customer	Revenue <i>(approximately HK\$'000)</i>	Approximate percentage to the revenue of our Group for that year  <i>(%)</i>	Principal business or sector of the customer	The calendar year in which the customer first started to have business relationship with our Group
Customer G	103,080.5	26.0	A contractor in the construction industry and a company incorporated in Hong Kong.	2016
Customer H	99,734.0	25.1	A subsidiary of a publicly listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include construction and engineering works.	2016
Customer B	61,675.9	15.5	A subcontractor, which is a subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include the provision of subcontracting services in relation to building construction works. The parent company of Customer B is a subsidiary of another publicly listed company whose shares are listed on the Main Board of the Stock Exchange.	2009
Customer I	33,425.5	8.4	A contractor, which is a subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include foundation and piling works. The parent company of Customer I is a subsidiary of another publicly listed company whose shares are listed on the Main Board of the Stock Exchange.	2007
Vibro (H.K.) Limited	27,583.2	7.0	A subsidiary of NWS Holdings Limited (stock code: 0659), the shares of which are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include piling, ground investigation and civil engineering. NWS Holdings Limited is a subsidiary of New World Development Company Limited (stock code: 17), the shares of which are listed on the Main Board of the Stock Exchange.	2014
Five largest customers combined	325,499.1	82.0		
All other customers	71,381.2	18.0		
Total	<u>396,880.3</u>	<u>100.0</u>		



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### For the eight months ended 30 November 2017

Customer	Revenue (approximately HK\$'000)	Approximate percentage to the revenue of our Group for that year (%)	Principal business or sector of the customer	The calendar year in which the customer first started to have business relationship with our Group
Customer G	71,477.5	34.7	A contractor in the construction industry and a company incorporated in Hong Kong.	2016
Customer B	40,421.0	19.6	A subcontractor, which is a subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange and the principal activities of such subsidiary include the provision of subcontracting services in relation to building construction works. The parent company of Customer B is a subsidiary of another publicly listed company whose shares are listed on the Main Board of the Stock Exchange.	2009
New Concepts Group	22,644.6	11.0	A contractor, which is a subsidiary of a publicly listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include foundation and civil engineering works.	2014
Customer H	21,191.3	10.3	A subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include construction and engineering work.	2016
Customer I	16,734.1	8.1	A contractor, which is a subsidiary of a publicly listed company whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include foundation and piling works. The parent company of Customer I is a subsidiary of another publicly listed company and the shares of which are listed on the Main Board of the Stock Exchange.	2007
Five largest customers combined	172,468.5	83.7		
All other customers	33,646.4	16.3		
Total	206,114.9	100.0		

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Our five largest customers accounted for approximately 93.6%, 98.1%, 82.0% and 83.7% of our total revenues for each of three years ended 31 March 2017 and the eight months ended 30 November 2017 respectively. In particular, approximately 48.0%, 55.7%, 5.9% and 11.0% of our total revenue in the respective period was attributable to New Concepts Group, our largest customer for the two years ended 31 March 2016.

The table below sets forth further information of our top five customers during the Track Record Period:

<b>Customers</b>	<b>Year of incorporation</b>	<b>Place of incorporation</b>	<b>Place of listing</b>	<b>Market capitalisation as at 30 November 2017 <i>(approximately)</i></b>
New Concepts Group	1996 and 1997 <i>(Note)</i>	Hong Kong	The shares of their parent company are listed on the Main Board of the Stock Exchange	Parent company: HK\$2.4 billion
Customer B	1997	Hong Kong	The shares of its parent company and the holding company of its parent company are both listed on the Main Board of the Stock Exchange	Holding company of the parent company: HK\$1.5 billion Parent company: HK\$1.2 billion
Customer C	1983	Hong Kong	The shares of its parent company are listed on the Main Board of the Stock Exchange	Parent company: HK\$622.0 million

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Customers	Year of incorporation	Place of incorporation	Place of listing	Market capitalisation as at 30 November 2017 <i>(approximately)</i>
Vibro (H.K.) Limited	1929	Hong Kong	The shares of NWS Holdings Limited (i.e. the parent company of Vibro (H.K.) Limited) and the shares of New World Development Company Limited (i.e. the parent company of NWS Holdings Limited) are both listed on the Main Board of the Stock Exchange	New World Development Company Limited: HK\$111.4 billion NWS Holdings Limited: HK\$55.2 billion
Ming Shing Construction Engineering Company Limited	1997	Hong Kong	Not applicable	Not applicable
Customer F	1993	Hong Kong	Not applicable	Not applicable
Customer G	1999	Hong Kong	Not applicable	Not applicable
Customer H	1993	Hong Kong	The shares of its parent company are listed on the Main Board of the Stock Exchange	Parent company: HK\$2.0 billion
Customer I	1995	Hong Kong	The shares of its parent company and the shares of the holding company of its parent company are both listed on the Main Board of the Stock Exchange	Holding company of the parent company: HK\$862.6 million Parent company: HK\$465.0 million

*Note:* Two subsidiaries of the New Concepts Group had been our customers during the Track Record Period. The respective year of incorporation of these two subsidiaries was 1996 and 1997.

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The following table sets forth the aging analysis of trade receivables as at 30 November 2017 for our top five customers during the Track Record Period:

Customers	Trade receivables as at 30 November 2017 (HK\$'000)		Subsequent settlement up to Latest Practicable Date (HK\$'000)		Percentage of subsequent settlement up to Latest Practicable Date (%)
	<90 days (HK\$'000)	91 days to 180 days (HK\$'000)	91 days to 180 days (HK\$'000)	up to Latest Practicable Date (HK\$'000)	
New Concepts Group	601	601	–	601	100.0
Customer B	210	210	–	210	100.0
Customer C	1,216	1,216	–	1,216	100.0
Vibro (H.K.) Limited	1,734	1,346	388	1,734	100.0
Ming Shing Construction Engineering Company Limited	–	–	–	–	–
Customer F	389	389	–	389	100.0
Customer G	11,973	5,676	6,297	11,973	100.0
Customer H	4,006	76	3,930	4,006	100.0
Customer I	1,836	1,836	–	1,836	100.0
Total	<u>21,965</u>	<u>11,350</u>	<u>10,615</u>	<u>21,965</u>	<u>100.0</u>

For detailed analysis of our turnover receivables turnover days and aging, please refer to the paragraph headed “Financial information – Trade and other receivables analysis” of this prospectus.

### Our relationship with New Concepts Group

New Concepts Group represents three entities and all of which are wholly-owned subsidiaries of a public company listed on the Main Board, and two of which had been our customers and suppliers (in case of contra-charge arrangement) and the remaining one of which was our supplier during the Track Record Period. The New Concepts Group is principally engaged in the business of building construction and project management. Our Group recognised revenue from New Concepts Group in a total of eight projects during the Track Record Period. The New Concepts Group carries on business, among others, as an established main contractor in Hong Kong and its ultimate holding company had a market capitalisation of approximately HK\$2.1 billion as at the Latest Practicable Date. According to the latest annual report of the holding company of New Concepts Group (“**New Concepts Listco**”) for the year ended 31 March 2017 published on the website of the Stock Exchange, it recorded a revenue of approximately HK\$1.2 billion and a net profit of approximately HK\$56.9 million. Based on the public available information including the information of disclosure of interests of the

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substantial shareholders of New Concepts Listco dated 4 May 2018 and its announcement published on 3 May 2018, it is noted that none of the shareholders of New Concepts Listco hold 30% or more of issued shares therein and on such basis, none of the shareholders of New Concepts Listco will be considered as its controlling shareholders as defined by the Listing Rules.

The shareholding structure of New Concepts Listco based on the above-mentioned publicly available information is set out in the table below:

Name of shareholders	Number of shares interested <i>(Note 1)</i>	Approximately % of issued shares <i>(Note 2)</i>
Jumbo Grand Enterprise Development Limited <i>(Note 3)</i>	77,000,000	14.52%
Prosper Power Group Limited <i>(Note 4)</i>	76,500,000	14.43%
CEF Concept Holdings Limited <i>(Note 5)</i>	55,400,000	10.45%
Simple Gain International Limited <i>(Note 6)</i>	40,000,000	7.54%
Directors and public shareholders of New Concepts Listco	281,362,992	53.06%
	530,262,992	100%

*Source:* the Stock Exchange and the announcement published by New Concepts Listco on 3 May 2018

*Notes:*

- The number of shares interested represents the respective interests of the shareholders of New Concepts Listco obtained from the website of the Stock Exchange on 4 May 2018
- The % of issued shares is calculated based on the number of issued shares of New Concepts Listco of 530,262,992 as at 3 May 2018.
- Jumbo Grand Enterprise Development Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Zhu Yongjun. Accordingly, Mr. Zhu Yongjun is deemed to be interested in the 77,000,000 shares held by Jumbo Grand Enterprise Development Limited for the purpose of the SFO. Based on the publicly available information, Mr. Zhu Yongjun is also personally interested in 480,000 share options of New Concepts Listco as at 3 May 2018.
- Prosper Power Group Limited, a company incorporated in the British Virgin Islands and is owned as to 75% by Mr. Chu Shu Cheong. The 76,500,000 shares beneficially held by Prosper Power Group Limited had been pledged in favor of Kingston Finance Limited to secure a loan granted to Prosper Power Group Limited. Based on the prospectus of New Concepts Listco dated 4 September 2014, Mr. Chu Shu Cheong and Prosper Power Group Limited were disclosed as controlling shareholders of New Concepts Listco. Based on the announcement of New Concepts Listco dated 16 August 2016, Prosper Power Group Limited held less than 30% shareholding interest in New Concepts Listco and thus, they are no longer controlling shareholder thereof.

In view of the share pledge, Kingston Finance Limited is deemed to have interest in the said 76,500,000 shares. Based on the publicly available information, Kingston Finance Limited is wholly-owned by Ample Cheer Limited, which is in turn owned as to 80% by Best Forth Limited, which is wholly-owned by Ms. Chu Yuet Wah.

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5. Based on the publicly available information, CEF Concept Holdings Limited is wholly-owned by CEF IV Holdings Limited, which is in turn owned as to 92.55% by China Environment Fund IV, L.P., an investment fund incorporated in the Cayman Islands. CEF IV Management, L.P. is the general partner of China Environment Fund IV, L.P., and CEF IV Management, Ltd. is the general partner of CEF IV Management, L.P. Therefore, by virtue of Part XV of the SFO, CEF IV Management, L.P. and CEF IV Management, Ltd. are both deemed to be interested in the 55,400,000 shares of New Concepts Listco held by CEF Concept Holdings Limited, CEF IV Management, Ltd. is wholly-owned by Wu Yeyang.
6. Based on the publicly available information, Simple Gain International Limited is wholly-owned by Allan Warburg Holdings Limited, which is in turn wholly-owned by Mr. Warburg Allan. Mr. Warburg Allan is the brother-in-law of Mr. Zhu Yongjun.

### Reasons for our customer concentration

Our Directors consider that the reasons for our customer concentration during the Track Record Period is a combination of the following key factors:

- (i) During the Track Record Period, we undertook two projects with New Concepts Group with the original contract sum over HK\$100 million, namely, (i) Project 16, a composite development involving ELS, pile cap and associated works with the original contract sum being approximately HK\$112.6 million; and (ii) Project 33, a composite development involving excavation and pile cap works with the original contract sum being approximately HK\$205.2 million. During the Track Record Period, the abovementioned contracts were our Group's two significant contracts based on original contract sum; and
- (ii) Our Directors believe that it is not uncommon for construction companies in Hong Kong to have customer concentration, especially when certain main contractors and subcontracts have developed a long-term business relationship with each other. According to the CIC Report, proven practical industry experience is one of the important competitive factors in the provision of services in the foundation industry. Our Directors consider that main contractors tend to invite those subcontractors with whom they have prior business relationship for submission of tender or quotation and as such, it is usual for subcontractors to have customer concentration.

### Sustainability of our business

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the revenue attributable to our five largest customers combined represented approximately 93.6%, 98.1%, 82.0% and 83.7% of our total revenue, respectively. The revenue attributable to our largest customer amounted to approximately 48.0%, 55.7%, 26.0% and 34.7% of our total revenue, respectively for the same years/periods. Our Directors believe, as supported by the CIC 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) Both the ranking and combination of our top five customers for each financial year and period during the Track Record Period were different. This suggests that we did not place undue reliance on any particular customer throughout the Track Record Period for revenue generation.

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- (ii) According to the CIC Report, the fact that the construction industry has been active in Hong Kong coupled with the Government's initiatives to increase the supply for residential building and commercial buildings will continue to support the demand for foundation works in Hong Kong in the near future. Being a subcontractor providing services with respect to foundation works, we experienced a strong demand for our services from our customers during the Track Record Period, which can be evidenced by our growth in revenue.
- (iii) Some of our major customers (including Customer B and Customer C) had long-standing business relationship with us for over eight years and ten years, respectively 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. For the year ended 31 March 2017 and the eight months ended 30 November 2017, our Group had started business relationships with new customers such as Customer G and Customer H, and New Concepts Group only contributed approximately 5.9% and 11.0% of our total revenue, respectively. As such, our Directors believe that our Group has successfully reduced our reliance on New Concepts Group.
- (iv) Our Directors believe that our established operating history and proven track record would enhance our reputation and assist us in securing projects from different customers. In addition, our Directors consider that our business relationship with the renowned New Concepts Group, can be regarded as a credit of our high quality services, which in turn allows our Group to attract more potential customers. Furthermore, given that our projects are non-recurring in nature, we enter into contracts with our customers on project-by-project basis and there is no contractual term prohibiting us from developing business relationship with new customers. Therefore, even if New Concepts Group does not award new projects to our Group or terminates its business relationship with us, we believe we would be able to reallocate our operational resources to serve other existing customers and/or new customers in a timely manner.
- (v) Our Group's business model and the services provided by us are not specifically designed to cater solely for New Concepts Group. In contrast, they are flexible and adaptable in serving different customers' needs. In the unlikely event that our current business relationship with New Concepts Group deteriorates or cease, we shall be still able to avail our resources to serve other existing customers or new customers in a timely manner. Our Directors are of the view that, our services and related skills can be readily transferred to serve other potential new customers and satisfy their needs. Based on our experience, we foresee that it would not incur significant costs for our Group to reallocate our resources to serve new customers.
- (vi) Our business strategies in the future include, among others, competing for more projects and expand our market shares. For further details of our business strategies, please refer to the section headed "Business – Business strategies" in this prospectus. Our Directors are of confident that with the increase in scale and our efforts on approaching new customers, our Group will not place any reliance on a single customer in the future.

**Reasons for the drop in revenue attributable to New Concepts Group for the year ended 31 March 2017 and the eight months ended 30 November 2017**

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, approximately 48.0%, 55.7%, 5.9% and 11.0% of our total revenue in the respective period was attributable to New Concepts Group. Our Directors confirmed that the reasons for the decrease were that (i) Project 16 (in which New Concepts Group engaged us as a subcontractor) was completed in August 2015 and no revenue was recorded for this project for the year ended 31 March 2017; and (ii) Project 33 (in which New Concepts Group engaged us as a subcontractor) completed in April 2016 and recorded approximately HK\$7.5 million revenue for us for the year ended 31 March 2017 only. In aggregate, Project 16 and Project 33 took up a significant portion of our Group's then resources and reduced our capacity at the time to undertake projects from other customers.

Further, our Directors confirmed that our Group took up fewer projects from other customers when we were carrying out the works under Project 16 and Project 33 as these two projects were large scale projects in terms of the original contract sums over HK\$100 million and required large scale deep excavation works, which were more complex and led to an increment in cost. In particular, our Group encountered some unexpected problems in relation to the geological condition in the work sites of Project 16 and Project 33 in the course of the large scale excavation works during the year ended 31 March 2016, which required extra manpower to deal with. Details are as follows:

- (i) Project 16: Boulders (i.e. large and hard rock fragments) were revealed during the course of the excavation works, and extra manpower was required for the excavation and removal of these boulders from the construction site.
- (ii) Project 33: Our Group had experienced water immersion during the excavation of this Project, and it was difficult for the Group to complete the excavation works under such condition. As such, the Group had to pump out most of the water before the resumption of the excavation works, and therefore, extra manpower was required and extra costs were incurred.

In response to the unexpected problems, our Directors informed New Concepts Group of the necessity for extra manpower immediately, and included the additional costs that had been incurred in our interim payment applications submitted to New Concepts Group for the corresponding periods. However, such the amounts of additional costs applied had not been certified in full by New Concepts Group. Thus, the overall profitability of the projects from New Concepts Group declined from the year ended 31 March 2015 to the year ended 31 March 2016. In view of the decrease in gross profit margin for the year ended 31 March 2016, our Group undertook projects which would be more profitable from other customers so as to enhance the profitability of our Group and to diversify our customer base. As such, we recorded an increase in gross profit margin and a decrease in revenue attributable to New Concepts Group for



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the year ended 31 March 2017. The following table sets forth the gross profit and gross profit margin of New Concepts Group and other customers during the Track Record Period:

	For the year ended 31 December						For the eight months ended 30 November	
	2015		2016		2017		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
New Concepts Group	13,292	10.3	14,479	5.1	1,858	7.9	905	4.0
Other customers	13,492	10.4	14,652	6.7	38,647	10.4	23,633	12.9
<b>Total</b>	<b>26,784</b>	<b>10.3</b>	<b>29,131</b>	<b>5.8</b>	<b>40,505</b>	<b>10.2</b>	<b>24,538</b>	<b>11.9</b>

Based on the above, our Group's decrease of revenue from New Concepts Group was a result of (i) the completion of large scale projects such as Project 16 and Project 33 where we subsequently had the capacity to undertake projects from other customers; and (ii) our Group's efforts to take up more projects from other customers and diversify our customer base. The average gross profit margin of our Project 16 and Project 33 is approximately 5.6%. Beside Project 16 and 33, there were 64 other projects which had also generated revenue for our Group during the Track Record Period. The average gross profit margin for these 64 projects was approximately 9.9%.

Our Directors believe that the change in customer concentration for the year ended 31 March 2017 does not have a material negative impact on our Group's business based on the following:

- 1) we undertook 12 projects with an original contract sum of over HK\$50 million during the Track Record Period and up to the Latest Practicable Date and these projects are attributable to eight different customers of our Group, namely, New Concepts Group, Ming Shing Construction Engineering Company Limited, Vibro (H.K.) Limited, Customer B, Customer C, Customer G, Customer H and Customer I. As such, the Directors believe the Group is not reliant solely on New Concepts Group for its sizable contracts;
- 2) our Group had an increase in the number of project on hand from 14 as at 31 March 2016 to 32 as at the Latest Practicable Date, and the increase in aggregate original contract sum of backlog from HK\$516.3 million and HK\$1,037.3 million as at the Latest Practicable Date;
- 3) notwithstanding our Group's two largest contracts were awarded by New Concepts Group, the Directors believe our capacity and experience in carrying out Project 16 and Project 33 will enable us to tender for similar scaled projects from other customers going forward; and
- 4) notwithstanding the significant decrease of revenue from New Concepts Group for the year ended 31 March 2017, our Group's gross profit increased from approximately HK\$29.1 million to HK\$40.5 million from the year ended 31 March 2016 to the year ended 31 March 2017.

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Further, please find below a table showing our tender success rate for bidding contract from the New Concepts Group during the Track Record Period:

	<b>For the year ended 31 March</b>			<b>For the eight months ended</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 November 2017</b>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
New Concepts Group	7.3%	–	4.3%	–

Our Directors confirm that our Group did not have any material dispute with New Concepts Group during the Track Record Period and up to the Latest Practicable Date.

### **Relationship with our five largest customers during the Track Record Period**

None of our Directors, their respective close associates, or any Shareholders who or which, own more than 5% of the issued share capital 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. All of the five largest customers are Independent Third Parties. During the Track Record Period, our Group had not experienced any major disruption in business due to material delays or defaulting payments by our customers by reason of their financial difficulties. Our Directors further confirm that they are not aware of any of our major customers having experienced material financial difficulties that may materially affect our Group's businesses.

### **Major contract terms with our customers**

Since we act as subcontractors in construction projects, the contracts with our customers generally require us to observe the terms in the main contract entered into between our customers as the main contractor and its customer. Set out below is a summary of the typical key terms of our contracts with our customers:

**Contract price**                      The original contract sum of our contracts is a provisional price subject to remeasurement where we are provided with a reference schedule showing the items, brief description and quantities of works to be performed by us and the final contract sum will be subject to remeasurement upon completion of work.

The contract price may be adjusted due to any variation order to the defined scope of works following the mechanism specified in the relevant contract.

**Duration of projects**                      Generally, both the expected commencement date and the expected completion date are stipulated in the contracts between our Group and our customers. However, the actual or final completion date may be beyond the scheduled completion date due to various reasons, mainly including unanticipated geological conditions of the construction sites, adverse weather and variations of works ordered by customers.

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In light of the above, there is an “extension of time” provision in the contracts, which stipulates a mechanism for us to apply for an extension on the completion date so that we would not have to pay any liquidated damages for the delay of completion where the cause is beyond our control. For the projects our Group had secured during the Track Record Period, the duration ranged from approximately one month to 61 months as between expected commencement dates and expected completion dates.

### **Payment terms**

We are usually entitled to submit interim payment applications to our customers, usually on a monthly basis, taking into account the amount of works completed in that month. The contract also stipulates both the monthly cut-off date and the party representing the customer, such as the customer’s designated surveyor, architect or project manager, to certify the value of the amount of works completed. After the relevant party has certified the value of works completed, our customers usually arrange settlement of the payment by cheque or bank transfer. Some of our customers adopt a “pay when paid” policy with and they generally pay us after collection of payments from their customers.

### **Retention money**

Retention money is generally retained by our customers in order to secure our due performance under the contract. Subject to negotiation between the parties, the amount of retention money usually represents 10% of the value of works certified in each payment, subject to a maximum retention of 5% respectively of the total original contract value. Half of the retention money is usually released to us upon completion of the work and the remaining half is released to us after six months or 12 months after the completion of the work. As at 31 March 2015, 2016 and 2017 and 30 November 2017, the amount of retention money receivable was approximately HK\$22.1 million, HK\$25.7 million, HK\$18.9 million and HK\$25.0 million, respectively.

Our Directors confirm that there was no material claim against us in relation to work defects or substandard workmanship which had been brought against our Group by our customers during the Track Record Period up to the Latest Practicable Date.

### **Insurance**

It is the obligation of the main contractor in a construction project to effect proper insurance policies against damages, claims and compensation in respect of the persons who are employed to work at the construction sites. Under the contracts, we are required to report any accident or injury happened to our staff and our subcontractor’s staff to the main contractor within stipulated time.

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**Variation orders** Our customers are entitled to request us to carry out variation works, which may involve the alterations or modifications of the design, quality or quantity of the works as described in the contract. A term setting out the mechanism for reaching a variation order between our customers and us is stipulated in the contract. The term also specifies the names and particulars of our customer's representatives in issuing variation orders to us, which entitles us to receive payments on our works performed under the variation orders.

**Termination** In the event of termination of the main contract between the ultimate employers and our customers, our contracts with our customers will be terminated correspondingly. Furthermore, in the event of default such as our failure to proceed with the contract work diligently, being adjudged bankrupt or going into liquidation or a petition having been filed for our bankruptcy against us or we are being abandoned or suspended to carry out the contracted works, our customers may terminate the contract by giving notice.

### OUR SUPPLIERS

During the Track Record Period, suppliers of goods and services to our Group mainly included: (i) suppliers of construction materials such as ready-mix concrete and steel products; (ii) transportation service providers including waste disposal services; (iii) lessors of machinery and repair and maintenance service providers; and (iv) suppliers of other parts and consumables and other miscellaneous goods including diesel fuel and personal protective equipment used by our on-site workers such as reflective vests and safety helmets. The following table sets out the total purchases incurred by type of purchases during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Material costs	85,481	56.1%	228,646	64.4%	171,119	60.2%	65,808	55.2%	108,843	70.0%
Subcontracting charges	14,979	9.8%	60,496	17.0%	67,600	23.8%	29,843	25.0%	26,433	17.0%
Transportation expenses	27,936	18.3%	41,217	11.6%	32,628	11.5%	15,048	12.6%	11,272	7.2%
Other direct costs	23,980	15.7%	24,649	6.9%	12,749	4.5%	8,530	7.2%	8,987	5.8%
<b>Total purchases</b>	<b>152,376</b>	<b>100.0%</b>	<b>355,008</b>	<b>100.0%</b>	<b>284,096</b>	<b>100.0%</b>	<b>119,229</b>	<b>100.0%</b>	<b>155,535</b>	<b>100.0%</b>

We generally order materials or services on a project-by-project basis and we do not enter into any long-term contract with our suppliers. During the project tender stage, we sought preliminary quotations from our suppliers and upon confirmation of the tender, we will place the order with the suppliers that we choose. The price is determined by reference to a pre-agreed quotation on an order-by-order basis according to the technical drawings and work program of the project. We are usually responsible for sourcing construction materials for our projects, and

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except in the case where we are provided with materials (such as backfill material and steel product) by our customers pursuant to the contra-charge arrangement, details of which are set out in the paragraphs headed “Our Suppliers – Contra-charge arrangement with our customer which is also our supplier” below, we are able to choose our own suppliers for our projects.

### **Selection of suppliers**

Our Group maintains an approved list of suppliers. As at the Latest Practicable Date, there were approximately 78 suppliers included on our approved list. We select our suppliers from our approved supplier list based on factors including the (i) quality of product/services; (ii) delivery time; (iii) previous working experience with the supplier; and (iv) reputation of the supplier. We generally do not provide the construction materials required for our projects unless otherwise stated in the agreement with our customers and our rate generally does not include the costs of construction materials. The terms of our supply contracts generally include the type of consumables or services required, the price, the quantity of consumables/duration of service and the payment terms. The credit period with our suppliers is not more than 30 days from the invoice date. During the Track Record Period, none of the suppliers were removed from our approved list of suppliers due to the poor quality of construction materials or services provided to us.

For our trade payables management, we will adhere to the following to ensure timely payment to our suppliers: (i) preparation and approval of the payment requisition form for payment once the invoice is received; (ii) monthly review of trade payable aging analysis; and (iii) for any outstanding payables, investigation and settlement should be performed unless being informed by suppliers or there are special circumstances.

During the Track Record Period, we did not experience any shortage of consumables or delay in the supply of consumables or services that we required. Our Directors consider that the possibility of shortage or delay in the supply of such consumables or services is low given the abundance of suppliers providing similar consumables/services in the market. In addition, we did not experience any material fluctuation of prices of consumables or services that we required during the Track Record Period. Our Directors believe we are able to pass on any increase in direct costs to our customers as we generally take into account our overall costs in the schedule of rates when preparing our tender or quotation.

### **Our five largest suppliers during the Track Record Period**

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our total purchases incurred (excluding subcontracting charges incurred) attributable to them amounted to approximately HK\$89.3 million, HK\$240.0 million, HK\$167.3 million and HK\$95.0 million, representing approximately 65.0%, 81.5%, 77.3% and 73.6% of our total purchases incurred (excluding subcontracting charges incurred), respectively. During the same period, our total purchases incurred (excluding subcontracting charges incurred) attributable to our largest supplier amounted to approximately HK\$57.6 million, HK\$158.1 million, HK\$78.5 million and HK\$58.8 million, representing approximately 41.9%, 53.7%, 36.3% and 45.6% of our total purchases incurred (excluding subcontracting charges incurred), respectively.

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The following tables set forth the details of our top five suppliers during the Track Record Period:

### For the year ended 31 March 2015

Supplier	Background	Types of goods/services provided by our supplier	Purchases incurred (HK\$'000)	Approximate % of our total purchases (excluding subcontracting charges incurred)	The calendar year which the supplier first started to have business relationship with our Group
New Concepts Group	A contractor, which consists of three subsidiaries of a publicly listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of which include foundation and civil engineering works	Construction materials such as ready-mix concrete and steel product (Note 1)	57,552.3	41.9	2014
Kam Lung Transport Co (Note 2)	A supplier of construction waste disposal service in Hong Kong	Construction waste disposal services	19,299.0	14.0	2009
Supplier A	A supplier of fuel and oil in Hong Kong	Fuel and oil	4,554.9	3.3	2011
Supplier B	A supplier of steel materials in Hong Kong and a company incorporated in Hong Kong	Steel product	3,976.0	2.9	2012
Ming Shing Construction Engineering Company Limited	A contractor in the construction industry and a company incorporated in Hong Kong	Construction materials such as ready-mix concrete and steel product (Note 1)	3,886.2	2.8	2015
Five largest suppliers combined			89,268.4	65.0	
All other suppliers			48,129.1	35.0	
Total purchases incurred (excluding subcontracting charges)			137,397.5	100.0	

*Notes:*

- The purchases of the relevant construction materials are made pursuant to the contra-charge arrangement, details of which are set out in the paragraph headed "Suppliers – Contra-charge arrangement with our customer which is also our supplier" in this section below.
- Kam Lung Transport Co is a sole proprietorship established by Mr. Tsang Leung Lung, the brother-in-law of Mr. Chan, and therefore a deemed connected person under Rule 14A.21 of the Listing Rules.

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**For the year ended 31 March 2016**

Supplier	Background	Types of goods/services provided by our supplier	Purchases incurred (HK\$'000)	Approximate % of our total purchases (excluding subcontracting charges incurred)	The calendar year which the supplier first started to have business relationship with our Group
New Concepts Group	A contractor, which consists of three subsidiaries of a publicly listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of which include foundation and civil engineering works	Construction materials such as ready-mix concrete and steel product (Note 1)	158,110.6	53.7	2014
Ming Shing Construction Engineering Company Limited	A contractor in the construction industry and a company incorporated in Hong Kong	Construction material such as ready-mix concrete and steel product (Note 1)	42,521.3	14.4	2015
Kam Lung Transport Co (Note 2)	A supplier of construction waste disposal service in Hong Kong	Construction waste disposal services	26,313.7	8.9	2009
Supplier C	A supplier of construction waste disposal services in Hong Kong	Construction waste disposal services	8,114.6	2.8	2015
Supplier B	A supplier of steel materials in Hong Kong and a company incorporated in Hong Kong	Steel product	4,928.4	1.7	2012
		Five largest suppliers combined	239,988.6	81.5	
		All other suppliers	54,523.3	18.5	
		Total purchases incurred (excluding subcontracting charges)	<u>294,511.9</u>	<u>100.0</u>	

*Notes:*

- The purchases of the relevant construction materials are made pursuant to the contra-charge arrangement, details of which are set out in the paragraph headed "Suppliers – Contra-charge arrangement with our customer which is also our supplier" in this section below.
- Kam Lung Transport Co is a sole proprietorship established by Mr. Tsang Leung Lung, the brother-in-law of Mr. Chan, and therefore is a deemed connected person under Rule 14A.21 of the Listing Rules.

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**For the year ended 31 March 2017**

Supplier	Background	Types of goods/services provided by our supplier	Purchases incurred (HK\$'000)	Approximate % of our total purchases (excluding subcontracting charges incurred)	The calendar year which the supplier first started to have business relationship with our Group
Customer G	A contractor in the construction industry and a company incorporated in Hong Kong	Construction materials such as ready-mix concrete and steel product ( <i>Note</i> )	78,513.5	36.3	2016
Customer H	A subsidiary of a public listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include construction and engineering works	Construction materials such as ready-mix concrete and steel product ( <i>Note</i> )	33,140.1	15.3	2016
Ming Shing Construction Engineering Company Limited	A contractor in the construction industry and a company incorporated in Hong Kong	Construction materials such as ready-mix concrete and steel product ( <i>Note</i> )	22,486.4	10.4	2015
Supplier D	A supplier of construction waste disposal service in Hong Kong and a company incorporated in Hong Kong	Construction waste disposal services	19,923.1	9.2	2016
Customer I	A contractor and a subsidiary of a public listed company, whose shares are listed in the Main Board of the Stock Exchange, and the principal activity of such subsidiary include foundation and piling works	Construction materials such as ready-mix concrete and steel product ( <i>Note</i> )	13,234.4	6.1	2007
Five largest suppliers combined			167,297.5	77.3	
All other suppliers			49,198.5	22.7	
Total purchases incurred (excluding subcontracting charges)			<u>216,496.0</u>	<u>100.0</u>	

*Note:* The purchases of the relevant construction materials are made pursuant to the contra-charge arrangement, details of which are set out in the paragraph headed "Suppliers – Contra-charge arrangement with our customer which is also our supplier" in this section below.



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**For the eight months ended 30 November 2017**

Supplier	Background	Types of goods/services provided by our supplier	Purchases incurred (HK\$'000)	Approximate % of our total purchases (excluding subcontracting charges incurred)	The calendar year which the supplier first started to have business relationship with our Group
Customer G	A contractor in the construction industry and a company incorporated in Hong Kong	Construction materials such as ready-mix concrete and steel product ( <i>Note 1</i> )	58,823.2	45.6	2016
New Concept Group	A contractor, which consists of three subsidiaries of a publicly listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include foundation and civil engineering works	Construction materials such as ready-mix concrete and steel product ( <i>Note 1</i> )	20,257.3	15.7	2014
Customer H	A subsidiary of a public listed company, whose shares are listed on the Main Board of the Stock Exchange, and the principal activities of such subsidiary include construction and engineering works	Construction materials such as ready-mix concrete and steel product ( <i>Note 1</i> )	6,315.2	4.9	2016
Kam Lung Transport Co ( <i>Note 2</i> )	A supplier of construction waste disposal service in Hong Kong	Construction waste disposal services	6,147.6	4.8	2009
Customer I	A contractor and a subsidiary of a public listed company, whose shares are listed in the Main Board of the Stock Exchange, and the principal activity of such subsidiary include foundation and piling works	Construction materials such as ready-mix concrete and steel product ( <i>Note 1</i> )	3,424.1	2.7	2007
Five largest suppliers combined			94,967.4	73.6	
All other supplies			34,135.3	26.4	
Total purchase incurred (excluding subcontracting charges)			<u>129,102.7</u>	<u>100.0</u>	

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*Notes:*

1. The purchases of the relevant construction materials are made pursuant to the contra-charge arrangement, details of which are set out in the paragraph headed “Supplier – Contra-charge arrangement with our customer which is also our supplier” in the section below.
2. Kam Lung Transport Co is a sole proprietorship established by Mr. Tsang Leung Lung, the brother-in-law of Mr. Chan, and therefore is a deemed connected person under Rule 14A.21 of the Listing Rules.

### **Relationship with our five largest suppliers during the Track Record Period**

During the Track Record Period, Kam Lung Transport Co (“**Kam Lung**”) provided construction waste disposal services to HCC Foundations. Kam Lung is a sole proprietorship established by Mr. Tsang Leung Lung, the brother-in-law of Mr. Chan. During the Track Record Period, the cost of services paid by our Group to Kam Lung was approximately HK\$19.3 million, HK\$26.3 million, HK\$9.2 million and HK\$6.1 million, respectively.

Save for Kam Lung, none of our Directors, their respective close associates or any Shareholders (who or which, to the best knowledge of our Directors, own more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest suppliers (excluding our subcontractors) during the Track Record Period. All of these five largest suppliers are Independent Third Parties.

### **Contra-charge arrangement with our customer which is also our supplier**

According to the CIC Report, it is common in the construction industry that a main contractor may pay on behalf of its subcontractors for certain expenses for a construction project. Such expenses are typically deducted from its payments to that subcontractor in settling its service fees for the project. Such payment arrangement is referred to as the “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 main contractors. Such contra-charge consisted of purchase cost of construction materials and other miscellaneous expenses. Pursuant to the contra-charge arrangement set out in the contracts with our customers, upon our written request, our customer may purchase materials such as concrete aggregates, steel materials and oil and fuel and make payments on our behalf. Such purchase cost is settled by way of contra-charge to the account with such customer. Effectively, the payments due to us from our customer will be settled after netting off such contra-charge amounts. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our contra-charge incurred amounted to approximately HK\$66.2 million, HK\$205.1 million, HK\$156.1 million and HK\$93.7 million, respectively. As we settled such costs by way of 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 purchases were reduced by the same amount. Therefore, the contra-charge arrangement had no material effect on our Group’s cashflow positions during the Track Record Period.

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

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000) (Unaudited)	(%)	(Approximately HK\$'000)	(%)
<b>New Concepts Group</b>										
Revenue derived and approximate % of total revenue	124,498.4	48.0	279,488.7	55.7	23,440.5	5.9	14,552.6	7.2	22,644.6	11.0
Contra-charge charged by New Concepts Group and approximate % of total purchases incurred (excluding subcontracting charges incurred)	57,552.3	41.9	158,110.6	53.7	7,858.4	3.6	5,217.0	5.8	20,257.3	15.7
<b>Customer B</b>										
Revenue derived and approximate % of total revenue	37,825.1	14.6	79,459.4	15.8	61,675.9	15.5	49,656.2	24.7	40,421.0	19.6
Contra-charge charged by Customer B and approximate % of total purchases incurred (excluding subcontracting charges incurred)	111.1	0.1	309.4	0.1	128.4	0.1	60.0	0.1	112.8	0.1
<b>Customer C</b>										
Revenue derived and approximate % of total revenue	37,750.7	14.6	32,856.0	6.5	5,417.2	1.4	3,223.1	1.6	4,233.8	2.1
Contra-charge charged by Customer C and approximate % of total purchases incurred (excluding subcontracting charges incurred)	3,601.9	2.6	150.8	0.1	124.8	0.1	103.6	0.1	6.1	-
<b>Vibro (H.K.) Limited</b>										
Revenue derived and approximate % of total revenue	27,334.4	10.5	325.7	0.1	27,583.2	7.0	11,832.3	5.9	11,477.1	5.6
Contra-charge charged by Vibro (H.K.) Limited and approximate % of total purchases incurred (excluding subcontracting charges incurred)	10.0	-	10.0	-	6.0	-	-	-	383.6	0.3

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	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)
<b>Ming Shing Construction Engineering Company Limited</b>										
Revenue derived and approximate % of total revenue	15,296.7	5.9	91,546.9	18.2	27,404.5	6.9	18,319.7	9.1	24.1	-
Contra-charge charged by Ming Shing Construction Engineering Company Limited and approximate % of total purchases incurred (excluding subcontracting charges incurred)	3,886.2	2.8	42,521.3	14.4	22,486.4	10.4	7,285.2	8.2	-	-
<b>Customer F</b>										
Revenue derived and approximate % of total revenue	7,451.2	2.9	9,140.3	1.8	6,541.8	1.6	3,654.1	1.8	432.6	0.2
Contra-charge charged by Customer F and approximate % of total purchases incurred (excluding subcontracting charges incurred)	-	-	113.7	-	112.5	0.1	81.0	0.1	22.7	-
<b>Customer G</b>										
Revenue derived and approximate % of total revenue	-	-	-	-	103,080.5	26.0	43,500.0	21.6	71,477.5	34.7
Contra-charge charged by Customer G and approximate % of total purchases incurred (excluding subcontracting charges incurred)	-	-	-	-	78,513.5	36.3	22,800.0	25.5	58,823.2	45.6
<b>Customer H</b>										
Revenue derived and approximate % of total revenue	-	-	-	-	99,734.0	25.1	25,903.8	12.9	21,191.3	10.3
Contra-charge charged by Customer H and approximate % of total purchases incurred (excluding subcontracting charges incurred)	-	-	-	-	33,140.1	15.3	4,691.5	5.2	6,315.2	4.9
<b>Customer I</b>										
Revenue derived and approximate % of total revenue	1,442.9	0.6	4,787.0	1.0	33,425.5	8.4	29,518.2	14.7	16,734.1	8.1
Contra-charge charged by Customer I and approximate % of total purchases incurred (excluding subcontracting charges incurred)	1,073.2	0.8	3,920.8	1.3	13,234.4	6.1	13,103.1	14.7	3,424.1	2.7

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	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)	(Approximately HK\$'000)	(%)
<b>Customer J</b>										
Revenue derived and approximate % of total revenue	-	-	1,221.3	0.2	6,138.8	1.5	962.8	0.5	10,583.6	5.1
Contra-charge charged by Customer J and approximate % of total purchases incurred (excluding subcontracting charges incurred)	-	-	-	-	470.8	0.2	20.4	-	3,320.2	2.6
<b>Customer K</b>										
Revenue derived and approximate % of total revenue	-	-	-	-	-	-	-	-	4,970.0	2.4
Contra-charge charged by Customer K and approximate % of total purchases incurred (excluding subcontracting charges incurred)	-	-	-	-	-	-	-	-	1,020.6	0.8

### Inventory control

If we are involved in the procurement of construction materials for a particular project, the purchases will be made as required and the construction materials will be delivered to the work sites directly for use. Our project team plans the delivery schedule ahead and our staff checks the quantity level stored at the construction sites before placing orders to ensure no duplication of order or over purchased due to the limited storage space at our construction sites. As a result, we generally do not keep excess inventory of construction materials. Our Directors consider that the quantity of construction materials stored at our construction sites as at 31 March 2015, 2016 and 2017 and 30 November 2017 was insignificant to our Group. Accordingly, the costs of construction materials were treated as expenses and included in the direct costs in the combined statements of profit or loss and other comprehensive income of our Group for each of the three years ended 31 March 2017 for the eight months ended 30 November 2017.

### SUBCONTRACTING

Depending on our capability and resources level, we may subcontract specific parts of a project such as rebar fixing, drainage works and formworks to our subcontractors to reduce staff costs. Our Group generally engages subcontractors for projects which are generally labour intensive or requires specific skill sets to carry out certain types of works. By engaging subcontractors our Group can focus its efforts on management of projects, devising detailed work programmes, procurement of materials, co-ordination with customers and their consultants, as well as quality control of works undertaken by our subcontractors. By engaging subcontractors our Group is able to (i) enhance our operation efficiencies; (ii) ensure that projects undertaken by us meet the contractual requirements; and (iii) deliver our works to our

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customers in a timely manner. For details relating to the Group's expansion plan with respect to the recruitment of additional staff to enhance our project team for the management of projects, please refer to the paragraph headed "Business strategies – Further expanding our manpower and strengthening the skills of our employees" in this section.

Further, according to the CIC Report, multilayer subcontracting is a common practice in the construction industry in Hong Kong. Some of our contracts with our customers may state that we are entitled to subcontract our works with the consent of our customers. For those projects which we subcontracted out during the Track Record Period, our Directors confirm that the relevant customers allowed us to do so to the extent that this restriction on subcontracting is applicable.

We generally select our subcontractors from our approved subcontractor list and invite the relevant subcontractors for quotation. The major contract terms with our subcontractors generally include: (i) scope of the subcontract work; (ii) price or unit price, as the case may be, of the subcontract work; (iii) payment terms; and (iv) retention monies, if any. In general, the duration of our subcontracting and the quality requirements as to the subcontract work are the same as those in the subcontracts that we agreed with our customers. We are generally entitled to terminate our subcontracts when our subcontractors materially breach and/or fail to perform their obligations under the subcontracts. Furthermore, our subcontractors generally require us to arrange with the main contractors to ensure the employees' compensation insurance and contractor's all risks insurance cover their employees.

Pursuant to the subcontract with our customers, we generally have to bear responsibilities in respect of the defective works and/or delays in works of our subcontractors. As such, our Directors consider that a stringent selection for our subcontractors is necessary. We maintain an internally approved list of subcontractors, which will be subject to our regular review based on a number of factors, including: (i) obedience to instructions; (ii) timely delivery of work; (iii) quality of work performed; (iv) safety and environmental compliance; and (v) overall performance.

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the total subcontracting charges incurred amounted to approximately HK\$15.0 million, HK\$60.5 million, HK\$67.6 million and HK\$26.4 million, representing approximately 9.8%, 17.0%, 23.8% and 17.0% of our total purchases incurred, respectively. The increasing trend of our subcontracting charge during the Track Record Period was mainly due to (i) the increasing trend of the wage of construction workers; (ii) the increase in engaging subcontractors for projects which are labour intensive and/or requires specific skills to carry out certain types of works such as bar-fixing, structure steel works and cement works; and (iii) hiring subcontractors offers more flexibility to our business operation mentioned above. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties or delays in performing our subcontracts due to material difficulties in identifying or engaging the required subcontractors.

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The following tables set forth the details of our top five subcontractors during the Track Record Period:

### For the year ended 31 March 2015

Subcontractors	Background	Types of service provided by our subcontractors	Subcontracting charges incurred <i>(approximately HK\$'000)</i>	Approximate % of the total subcontracting charges incurred by our Group	The calendar year which the subcontractor first started business relationship with our Group
Subcontractor A	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include rebar fixing.	Rebar fixing	6,117.0	40.8	2014
Subcontractor B	A sole proprietor in Hong Kong, the principal activities of which include drainage works.	Drainage works	2,668.1	17.8	2007
Subcontractor C	A sole proprietor in Hong Kong, the principal activities of which include formworks.	Formworks	1,547.6	10.3	2009
Subcontractor D	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include metal scaffolding and geotechnical work.	Shotcreting, grouting, soil nail and scaffolding	1,445.3	9.6	2013
Subcontractor E	A building and civil engineering contractor and a company incorporated in Hong Kong, the principal activities of which include providing building and civil engineering services for various areas.	Preloading works	1,058.3	7.1	2013
Five largest subcontractors combined			12,836.3	85.7	
All other subcontractors			2,143.0	14.3	
Total subcontracting charges incurred			<u>14,979.3</u>	<u>100.0</u>	

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**For the year ended 31 March 2016**

Subcontractors	Background	Types of service provided by our subcontractors	Subcontracting charges incurred <i>(approximately HK\$ million)</i>	Approximate % of the total subcontracting charges incurred by our Group	The calendar year which the subcontractor first started business relationship with our Group
Subcontractor A	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include rebar fixing.	Rebar fixing	34,913.9	57.7	2014
Subcontractor D	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include metal scaffolding and geotechnical work.	Shotcreting, grouting, soil nail and scaffolding	7,408.3	12.3	2013
Subcontractor F	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include concreting, rebar fixing and timber formwork.	Formworks	4,560.2	7.5	2015
Subcontractor G	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include formworks.	Formworks	3,522.2	5.8	2013
Subcontractor B	A sole proprietor in Hong Kong, the principal activities of which include drainage works.	Drainage works	2,623.9	4.3	2007
		Five largest subcontractors combined	53,028.5	87.6	
		All other subcontractors	7,467.1	12.4	
		Total subcontracting charges incurred	<u>60,495.6</u>	<u>100.0</u>	



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**For the year ended 31 March 2017**

Subcontractors	Background	Types of service provided by our subcontractors	Subcontracting charges incurred <i>(approximately HK\$ million)</i>	Approximate % of the total subcontracting charges incurred by our Group	The calendar year which the subcontractor first started business relationship with our Group
Subcontractor H	A general building contractor and a company incorporated in Hong Kong, the principal activities of which include demolition works, excavation works, concrete works, steel bending & erection.	Formworks	31,356.4	46.4	2016
Subcontractor I	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include structural steelwork, metal work and hoarding.	Shoring	8,116.0	12.0	2016
Subcontractor J	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include timber formwork, concreting and rebar fixing.	Formworks	7,622.2	11.3	2016
Subcontractor A	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include rebar fixing.	Rebar fixing	5,924.5	8.7	2014
Subcontractor K	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include rebar fixing.	Rebar fixing	4,658.3	6.9	2016
Five largest subcontractors combined			57,677.4	85.3	
All other subcontractors			9,922.7	14.7	
Total subcontracting charges incurred			<u>67,600.1</u>	<u>100.0</u>	

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**For the eight months ended 30 November 2017**

Subcontractors	Background	Types of service provided by our subcontractors	Subcontracting charges incurred <i>(approximately HK\$'000)</i>	Approximate % of the total subcontracting charges incurred by the Group	The calendar year which the subcontractor first started business relationship with our Group
Subcontractor I	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include structural steelwork, metal work and hoarding.	Shoring	7,695.7	29.1	2016
Subcontractor J	A subcontractor and a company incorporate in Hong Kong, the principal activities of which include timber formwork, concreting and rebar fixing.	Formworks	4,632.5	17.5	2016
Subcontractor A	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include rebar fixing.	Rebar fixing	3,693.0	14.0	2014
Subcontractor H	A general building contractor and a company incorporated in Hong Kong, the principal activities of which include demolition works, excavation works, concrete works, steel bending & erection.	Formworks	2,939.0	11.1	2016
Subcontractor L	A subcontractor and a company incorporated in Hong Kong, the principal activities of which include pipe pile, grant contain and king post works.	Pipe pile, grant contain and king post works	2,421.9	9.2	2017
Five largest subcontractors combined			21,382.1	80.9	
All other subcontractors			5,050.7	19.1	
Total subcontracting charges incurred			<u>26,432.8</u>	<u>100.0</u>	

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### Major terms of engagement with our subcontractors

We engage our subcontractors on a project basis and do not enter into long-term agreements with subcontractors. The following summarises the major terms of engagement with our subcontractors:

Contract period	The duration of the subcontracting agreement is generally in line with the duration of the corresponding main contract between us and our customer.
Rights and obligations of the subcontractor	A subcontractor is required to comply with the relevant terms and perform its works in accordance with the specifications under the main contracts on a back-to-back basis.
Subcontracting charges and payment terms	The subcontracting charges to be received by the subcontractor usually represent in a provisional sum, which is subject to re-measurement and valuation according to the schedule of rates included in the subcontract and further subject to any variation orders or additional works to be performed by the subcontractors with our prior consent. In general, we determine the amount of subcontracting charges based on (i) certain percentage of the amount of fees to be received by us from our customers in respect of the portion of works being subcontracted; (ii) the amount of labour resources required from our sub-contractors; (iii) the nature of works to be performed by our subcontractors; and (iv) the prevailing market conditions. We have not adopted any “pay when paid” policy with our subcontractors.
Site utilities	Water, electricity and lighting is provided by our Group for site operations.
Retention monies and defective liability period	We may hold up a certain percentage, usually 10%, of each interim payment made to the subcontractors and subject to a ceiling of 5% of the total original contract sum as retention money. Unless otherwise agreed, the retention monies or such portion thereof shall be held for twelve months after the satisfactory completion of the subcontracting works. Similar to the practices with our customers, we also require a defects liability period of 12 months during which our subcontractors shall be responsible for rectifying works defects arising from works subcontracted to them at its own expenses.

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Termination	If the subcontractor leaves the work uncompleted, fails to complete the work on the date for completion or, if in our opinion the work is unsatisfactory or likely to be so and having caused undue delay to the overall progress of the main contract, our Group may terminate the subcontracting agreement by giving advance notice of intention to do so.
Safety	The subcontractor shall comply with the provision of statutory safety regulations relating to the carrying out of the subcontracting works. The subcontractor shall also indemnify our Group against any expenses, penalties and other losses sustained occasioned as a consequence of the subcontractors' non-compliance with the safety ordinance and regulations.
Indemnity	Subcontractors are required to indemnify our Group against any loss, expense or claim arising from the failure to comply with subcontracting agreement by the subcontractors and/or their employees. We are entitled to hold our subcontractors liable for loss and damage suffered by our Group if their works are not performed in accordance with the requirements set out in the main contract.

### *Control over subcontractors*

We may be liable to our customers for the performance of our subcontractors and we may also be liable to any potential employee compensation claims and personal injuries claims made by our subcontractors' employees arising from work injuries that may happen from time to time. Therefore, we carry out regular assessment of our subcontractors during the course of a project to ensure quality and safety of their works. In order to closely monitor the performance of our subcontractors and to ensure that the subcontractors comply with the contractual requirements and the relevant laws and regulations, we require our subcontractors to follow our internal control measures in relation to quality control, safety and environmental compliance. Our project management personnel conducts regular site inspection to ensure general compliance by our subcontractors in quality, safety and environmental requirements. During project implementation, our project team regularly meets with our subcontractors and closely monitors their work progress and performance as well as their compliance with our safety measures and quality standards. For further information regarding our measures in relation to quality control, safety and environmental compliance, please refer to the paragraphs respectively headed "Quality control", "Occupational health and safety" and "Environment Compliance" in this section.

Our Directors considered that we have maintained stable long-term relationship with our subcontractors and confirmed that we had no material dispute with our subcontractors in respect of the projects awarded to them during the Track Record Period.

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### OUR MACHINERY FLEET

As disclosed in the paragraph headed “Competitive Strengths” in this section, one of our competitive strengths is that we have a broad range of excavators for our Company to carry out the foundation works. To strengthen our machinery fleet, our Directors attended exhibitions and fairs in Japan from time to time to explore latest technology innovation in construction machinery and acquired machineries through authorised distributors of reputable suppliers mainly from Japan. Our Directors believe that possessing a large range of machineries would enable our Group to enjoy greater flexibility in allocating resources and place less reliance on renting machineries from others. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, we acquired new machinery in the sum of approximately HK\$13.8 million, HK\$17.7 million, HK\$5.7 million and HK\$4.1 million, respectively. As at 30 November 2017, our machinery had an aggregated value of approximately HK\$18.9 million.

As at 30 November 2017, our Group had 142 units of machinery in use, as follows:

	<b>Quantity</b>			<b>Carrying amount as at 30 November 2017 HK\$'000 (approximate)</b>
	<b>NRMM Approved</b>	<b>NRMM Exempted</b>	<b>Not subject to NRMM</b>	
Hydraulic excavator	32	58	–	12,267
Crawler crane	1	3	–	4,402
Crawler drill	–	2	–	222
Other machinery	4	15	27	1,996
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>37</b>	<b>78</b>	<b>27</b>	<b>18,887</b>
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As at 30 November 2017, our Group had 142 units of machinery in use. Some of the principal machinery of our Group (acquired within the preceding five calendar years with initial cost of acquisition of over HK\$1 million) are set out below:

Name of Machinery	Quantity	Principal functions	Year of acquisition	Cost of acquisition <i>(approximately HK\$'000)</i>	Carrying value as at 30 November 2017 <i>(approximately HK\$'000)</i>	Average remaining useful life <i>(approximate year)</i>
<b>NRMM approved</b>						
<b>Hydraulic Excavator</b>						
- 20 to 49 tons hydraulic excavators	2	Used for excavation works	2014	3,200	213	0.3
- 50 tons or more hydraulic excavators	1	Used for excavation works	2015	1,150	422	1.8
Crawler crane	1	Used in providing service of lifting and installation of sheet piles	2017	4,350	3,302	3.8
<b>NRMM exempted</b>						
<b>hydraulic excavator</b>						
- 20 to 49 tons hydraulic excavators	2	Used for excavation works	2016	4,080	1,865	2.3
- 50 tons or more hydraulic excavators	3	Used for excavation works	2013-2016	5,660	1,904	1.9
Crawler crane	3	Used in providing service of lifting and installation of sheet piles	2011-2015	7,500	1,100	0.6

Some of our machines, such as the load shifting machines like excavators and crawler cranes, are under the statutory requirements that they can only be operated by an operator who has attended the relevant training course and holds a valid certificate. As at the Latest Practicable Date, our Group had 61 machine operators and all of them held the relevant certificates for operating the machineries. Our machine operators are also responsible for inspecting our machinery regularly and arranging for repairing our machinery by external repair companies.

Furthermore, to ensure the safety and efficiency of the works carried out by us, regular inspections of our machinery are carried out by our staff. The frequency of inspection and servicing depends on the types of the machines, extent of use and the working conditions of the site area. Our Group performs a daily routine service and inspection, which include oiling, refueling and tire inspection for our machineries which are in use at the construction site.

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As at 30 November 2017, the carrying value of our NRMM exempted machinery was approximately HK\$8.0 million. Our Directors considered that it is not necessary to impair our NRMM exempted machines for the following reasons:

- (i) as at the Latest Practicable Date, we have 32 projects on hand and 19 of them are from the private sector. Also, for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, approximately 75.4%, 88.8%, 72.5% and 32.8% of our revenue were derived from foundation works from private sector projects and our fleet of NRMM exempted machines can still be deployed to generate revenue from the private sector. Therefore, the impact of the implementation plan is not expected to have significant impact on the future cash flows from the continuing use (and hence the value in use) of our NRMM exempted machineries;
- (ii) as at 1 June 2019 (i.e. the enforcement date of the phase 3 of the phase out plan set out in the Technical Circular), the aggregate carrying value of 78 units of NRMM exempted machines will be approximately HK\$2.5 million. Among these 78 units of NRMM exempted machinery, all of them will be either fully depreciate or with an aggregate carrying value of less than approximately HK\$0.5 million. Our Directors believe that these machineries can be fully utilised in our private sector projects after the enforcement of the phase 3 of the phase out plan;
- (iii) we engage third party service providers to repair and maintain our construction machinery on regular basis and our Directors confirm that there was no evidence of substantial obsolescence or physical damage of our fleet of NRMM exempted machineries; and
- (iv) there were no significant changes with an adverse effect on our Group taking place during the Track Record Period, or will take place in the near future, in the technological, market, economic or legal environment in which our Group operates.

In light of the above, our Directors consider that, and our Reporting Accountants concurred, no impairment of NRMM exempted machines is necessary. Moreover, in order to keep in pace with the Technical Circular and to compete for foundation projects, our Directors consider it is necessary for us to enhance our machinery fleet with more NRMM approved foundation machinery in the near future. For details of our plan to acquire additional machinery and equipment, please refer to the paragraph headed “Future plans and use of proceeds – Use of proceeds” in this prospectus.

With the possession of our own machinery and equipment, we do not have to rely on our suppliers for machinery and equipment rental services. We believe that our investment in different types of machinery and equipment has placed us in a position to cater for projects of different scales and complexity. Our Directors also consider that having our own machinery and equipment allows us to devise suitable work schedules and methods tailored to the different needs and requirements of different customers and enable us to efficiently and effectively schedule our projects and deploy our manpower.

### UTILISATION RATES

Owing to the unique nature of our foundation business and operations, our Directors consider that it is not feasible nor practicable to quantify and disclose detailed utilisation rate of our machinery and equipment for the following reasons:

- different projects require different types of machinery depending on their functions and it is therefore not entirely feasible to quantify the capacity of each piece of machinery by making reference to an objective and comparable scale or standard of measurement;
- the utilisation rate of individual machinery cannot be clearly defined. A typical foundation project requires the use of different machinery at different stages, and the machinery from time to time may be left unused at the active construction sites pending completion of other stages. Some machines are also sometimes left unused for repairing, assembling or disassembling in sites. For these reasons, it is our Directors' view that it would be difficult and even infeasible to define accurate utilisation rate of machinery in general;
- as set out in the fixed asset register of our Group as at 30 November 2017, we had 142 units of machineries. Given the number of machinery owned by our Group, it is impractical for us to make a full account of the daily/hourly usage of each individual machineries.

Though our Group does not quantify the utilisation rate of our machinery due to the above reasons, our Directors and management do monitor the overall deployment of our machinery in each of our construction site. We assess the current utilisation and the anticipated need for different types of our machinery and formulate acquisition plan based on the then status of our projects on hand, the number of our projects in the pipeline and their specific requirements, and our assessment on the availability and condition of our existing machinery.

### REPAIR, MAINTENANCE AND REPLACEMENT

During the Track Record Period, our construction machinery would be subject to normal wear and tear and these general repair and maintenance are carried out by our employee. When our construction machinery was out-of-order, it would be sent to third party repair companies. The warranty period of new construction machinery is generally around one year. As at 30 November 2017, the weighted average age of our construction machinery based on the cost of acquisition was approximately 3.9 years and the weighted average remaining useful life of our construction machinery was approximately 1.6 years.

We adopt a straight-line depreciation policy on our construction machinery for five years, which our Directors believe, is in line with industry norm. Similar to other property, plant and equipment, we determine the useful life and residual value of the construction machinery based on various factors, such as expected usage of the asset and expected physical wear and tear as



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well as the experience of our Group with similar assets. For details of the relevant accounting policies and estimates, please refer to note 2.4 of the Accountants' Report set out in Appendix I to this prospectus.

Despite the fact that the useful life for the construction machinery in general is considered to be five years pursuant to the accounting policy, it serves as a referencing figure having considered the industry norm and regulatory environment relating to our business operations. Construction machinery if fall within the relevant regulatory regime are required to obtain relevant certifications before performing their tasks at construction sites and there is currently no restrictions imposed by the relevant regulatory regime in Hong Kong to prohibit the use of construction machinery with certain ages except for the foundation projects from the public sector.

In respect of leasing capacity over our construction machinery, given there is no strict definition for leasing capacity, our Directors would consider factors including the estimated and remaining useful lives, the actual condition of the construction machinery, the disposal of the construction machinery by market needs, and we therefore maintain stable combination of our machinery fleet among different categories of construction machinery and we review our machinery fleet regularly for the expansion and disposal of respective construction machinery as may be necessary. We will consider making replacement of existing construction machinery only when it is necessary.

In general, our Directors consider that the optimal life of our construction machinery during which they operate most efficiently is approximately the first three to five years after they come into operation. After such period, the efficiency of our construction machinery generally starts to deteriorate and the cost of maintenance gradually increases, although they may still be functional for at least 10 years. We engage third party service providers to repair and maintain our construction machinery on a regular basis. For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our expenses in repairing and maintaining our machinery, accounted for approximately HK\$5.6 million, HK\$6.1 million, HK\$4.1 million and HK\$2.1 million, respectively. Our Directors consider that with proper maintenance, the operational life of our construction machinery could be over 10 years. As at the Latest Practicable Date, the weighted average age of our construction machinery was approximately 4.4 years. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material work interruption due to malfunction of our construction machinery.

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### Finance Lease

During the Track Record Period, 21 units of machinery operated by our Group were financed by finance lease arrangements between our Group and financial institutions in Hong Kong whereby the ownership of the machines remain with such financial institutions until the total rental set out in the individual lease agreements has been paid up in full and whereupon our Group has exercised or deemed to have exercised the option to purchase the relevant machineries. As at 30 November 2017, four units of our machinery were held under finance lease. Though the terms and conditions of the finance lease agreements entered into between our Group and the financial institutions are different, the salient terms thereof are now generalised and set out herein below:

Parties	The financial institution as the owner and our Group as the lessee
Ownership	The machine is and will continue in the ownership of the financial institution until our Group has paid up the entire lease purchase price and interests and whereby, the ownership of the machine will vest in our Group by our exercise of the option to purchase the machine. Before the ownership of the machine has vested in to our Group, our Group possess the machine only as bailee
Lease Period	one to three years
Rental	Being the aggregate of the outstanding balance of the lease purchase price of the machinery and the interest (as mentioned below)
Interest rate	The interest rate is calculated at a fixed rate. Obligation under finance leases carried at effective interest rates from 3.6% to 6.6% per annum during the Track Record Period
Monthly rent	The rent is calculated based on the above-mentioned rental and the length of the lease period and is payable by us on a monthly basis
Option to purchase	Provided that we have duly observed and performed all our obligations and/or terms and conditions under the lease agreement and has paid the lease purchase price in full, we shall be entitled to exercise or is deemed to have exercised the option to purchase the machines
Insurance	We shall insure the machinery against loss or damage during the lease period

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Early termination	We may terminate the lease agreement at any time during the lease period by paying all money owing by us to the financial institution under the lease agreement, including all rent installments which fall due under the lease agreement, the early termination fee and the option price.
Termination on default	The financial institution is entitled to terminate the lease agreement upon the occurrence of any event of default set out in the lease agreement, whereupon, the financial institution shall have the right to repossess the machinery. In such event, we shall pay all unpaid amount, including outstanding rental, cost, and general damages (if any) to the financial institution upon demand
Lessee's undertaking	We, as lessee, are subject to customer undertakings in the lease agreement such as keeping the machinery in good condition and repair at our own costs
Indemnity	We shall indemnify the financial institution by payment in cash on demand against all costs, charges, expenses and liabilities which may be incurred by the financial institution by reason of entering into lease agreement

As at 31 March 2015, 2016 and 2017 and 30 November 2017, the aggregate net carrying value of our machinery under the prevailing lease agreements amounted to approximately HK\$9.7 million, HK\$10.9 million, HK\$9.8 million and HK\$6.4 million, respectively. The lease arrangements are classified as finance leases under HKFRS.

### ASSETS PROTECTION

Our Group has made substantial investments in machinery and therefore proper storage of the machinery is important to our business operations. Our machinery is safely kept at our storage areas. As part of our security measures, our storage areas are installed with CCTV system and secured by the erection of security gates with locks at the point of entry. During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any theft incidents and we did not suffer any financial loss as a result of our machineries being intentionally damaged or stolen.

### QUALITY CONTROL

To maintain consistent quality services for our customers, we have established formal quality management system specifying, among other things, specific work procedures for performing different types of site works, management process, responsibilities of different levels, tendering process, cost control, quality inspection procedures and standards,

subcontracting requirements and accident reporting and complaints and work procedures for operating different types of machinery and equipment. Our workers and subcontractors are required to follow such procedures.

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

Our Group places strong emphasis on construction site management. Hence, different job duties are assigned to our staff to ensure the quality of our works. Please refer to the paragraph headed “Operation flow – Project execution” in this section for the main responsibilities of each key member in our project team. In particular, the project manager and the foreman of each construction site are responsible for monitoring the quality of the works undertaken by our own workforce and our subcontractors.

Nevertheless, our Directors and senior management also closely monitor the quality of works by frequent inspections of the construction sites and the works carried out therein; and regular communications with each of our project teams. Generally, each project team has to report to our Directors and senior management through meeting weekly and through mobile application software on a daily basis on (i) progress of the works; (ii) quality of the works; and (iii) costs incurred by the works.

Our customers, being generally the main contractors, will also assign their engineers to carry out quality supervision to our foundation works at various stages of a project. Also, progress meetings between our customers, our subcontractors and us are held from time to time during various stages of the project to review the progress of the construction projects. During the Track Record Period and up to the Latest Practicable Date, we had not received any complaint or request for any kind of compensation from our customers due to quality issue in relation to works performed by us or by our subcontractors, which is considered by our Directors to be attributable to our effective quality control measures.

### **Quality control on subcontractors**

We maintain an approved list of subcontractors, who will be subject to our regular review based on a number of factors, including: (i) company background, job reference and their adherence to instructions, if any; (ii) timely delivery of work; (iii) quality of work performed; (iv) safety and environmental compliance; and (v) overall performance.

We carry out regular assessment of our subcontractors during the course of a project to ensure they can meet our quality and safety requirements in carrying out the subcontract work. In order to closely monitor the performance of our subcontractors and to ensure that the subcontractors comply with the contractual requirements and the relevant laws and regulations, we require our subcontractors to follow our internal control measures in relation to quality control, safety and environmental compliance.

Also, we have progress meetings with our subcontractors from time to time during various stages of a project to review the progress of the construction projects. During the Track Record Period and up to the Latest Practicable Date, we had not received any complaint or claim due to quality issue in relation to the works performed by our subcontractors, which would have a material adverse effect to our business and operation.

**Quality control on our construction machineries**

Our construction machinery was purchased from manufacturers or its authorized dealers in Hong Kong. Newly purchased machinery generally will come with a one year manufacture warranty. We generally purchase from our suppliers who have established satisfactory business relationships with us, and demonstrated consistency in the quality of products supplied by them. When the construction machineries purchased are delivered to us, our quality control will generally include the inspection of whether the quantity is correct, whether there are any observable defects, and whether it functions properly.

Maintenance works of our construction machines are performed regularly by our maintenance team consisted of machine operators, which are normally licensed operators. They will carry out checks on general conditions of the machinery, foot and parking brakes, fuel level and greasing of the lubrication points by our machine operators before usage of the machinery in our warehouses located in Yuen Long to maintain them in serviceable conditions.

When our machine operators or foremen identified needs for repairing works, we will engage third party repair companies to carry out such works. Inspection will also be performed by our foreman or operator to ensure the machines are properly repaired without potential defects before use.

To ensure compliance with the NRMM Regulation, the Technical Circular and any other applicable laws and regulations regarding our construction machinery, our safety officer will advise our Directors and senior management after the publication of any regulatory announcement or circular in relation to the construction industry, in particular, any new requirements imposed on our construction machinery. We will also engage external professionals, including external legal adviser and other advisers, to provide professional advice to us as to our compliance with statutory and regulatory requirements which are relevant to our construction machinery from time to time.

Our Directors confirmed that, during the Track Record Period, there were no instances where our construction machinery under our machinery fleet failed to obtain any of the certifications when required.

**Quality control on materials**

Regarding the materials purchased by us, unless our customers designate the suppliers, we generally procure materials from our internal list of approved suppliers with whom we have satisfactory past business relationships for supply of quality construction materials. All materials purchased from our approved suppliers would be checked by our staff to ensure that the specifications match with the descriptions in our purchase record before being used. Also, for construction materials such as steel and concrete that are to be used in our project, we engage third parties to perform testing samples. Any items with defects or which are not consistent with defects or which are not consistent to the product specifications stated in the purchase orders would be returned to the suppliers for replacement.

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For materials provided by our customers under the contra-charge arrangement, our staff will check to ensure the quality of supplies and confirm relevant certificates for the construction materials have been obtained, if applicable, before being used.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaint or request for any kind of compensation from our customers due to or in relation to the quality of the construction materials used by us.

### OCCUPATIONAL HEALTH AND SAFETY

Our Group is committed to providing both our employees and the employees of subcontractors with a safe and healthy working environment. As such, we have established a in-house safety plan with various safety measures.

Our safety plan is documented in writing and supplemented with instructions to our employees and subcontractors, trainings for our staff working at construction sites and demonstration of our safety measures. Our project manager is responsible for monitoring the implementation of our safety plan and establishing a safety inspection system while our safety officer, who has registered with the Labour Department, is primarily responsible for the actual implementation of our in-house safety plan, provision of safety trainings for workers and subsequent supervision for their strict compliance with safety regulations. We will continue to invest in safety management and minimize the risks associated with safety issues.

Our safety plan adopted and used during the Track Record Period sets out work safety measures to prevent common construction site accidents. We set forth below a summary of the details therein:

<b>Categories</b>	<b>Safety measures and requirements undertaken</b>
Personal protective equipment (PPE)	<p>All persons entering our construction sites must wear an approved type of safety helmet and safety shoes. Approved protective gloves, eye protectors, respirators and other PPE should be worn during the course of specific operations.</p> <p>Hearing protective equipment such as approved ear muffs or ear plugs shall be worn by workers who are exposed to a daily noise exposure of above 85db(A). Safety belts or safety harnesses should be used with lifelines or attached to anchorage points when working at height.</p> <p>The construction site will provide to subcontractors' workers the approved PPE should the subcontractors fail to do so, and the subcontractors will be fined accordingly.</p>

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<b>Categories</b>	<b>Safety measures and requirements undertaken</b>
Excavation operations	<p>All excavation operations are carried out in accordance with F&amp;IU Construction Sites (Safety) Regulations (Cap 59I Part VI of the Laws of Hong Kong).</p> <p>Excavation operations are examined by a competent party every 7 days and no excavation work should proceed without a valid approval form from the examination.</p> <p>Detailed safety procedures include:</p> <ul style="list-style-type: none"><li>• Provision of safety access in any trench/pit.</li><li>• The provision of fall arrest equipment such as safety harnesses connected to independent safety lines with full arresters.</li><li>• Opening of drainage wells should be securely covered.</li></ul>
Use of abrasive wheels	<p>The use of abrasive wheels follows the provisions in F&amp;IU (Abrasive Wheels) Regulations (Cap 59L of the Laws of Hong Kong).</p> <ul style="list-style-type: none"><li>• Mountings should be done by appointed persons who are competent and experienced in the field.</li><li>• The speed of the spindle and disc should not exceed the maximum permissible speed specified by the manufacturer. Such maximum permissible speed should be affixed to every relevant machine. Further, the speed of the spindle shall not exceed the speed of the disc.</li><li>• The distance between the wheel and work rest should not exceed 3.2mm and the protective screen should always be kept in the correct position.</li><li>• Warnings and precautions including the use of safety equipment should be affixed at sites with abrasive wheels.</li></ul>

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### Categories

### Safety measures and requirements undertaken

Working at height

Toolbox talks and Job-specific safety training will be given to lifting operators, riggers and signalers involved in lifting operations. In addition, all working platforms are provided in accordance with F&IU Construction Sites (Safety) Regulations (Cap 59I of the Laws of Hong Kong).

- Provision of scaffold work platforms of appropriate dimension, which is supplemented by guardrails and toe boards.
- Sufficient overlap of scaffold planks at each hanger bracket of the working platform.
- Where scaffolding is impractical, fall arrest equipment including safety harnesses connected to independent safety lines with fall arresters will be provided.

We appointed a registered safety auditor to conduct a safety audit at the corporate level in compliance with the FIUSMR in 2017. A summary of the material findings of the safety audit report issued in March 2017 is as follows:

### Elements of safety management system

### Material findings

Safety policy

- Procedure was established for safety policy.
- The health & safety policy statement committed to high standard of health and safety and was in compliance with statutory and contractual obligations.

Safety organisation

- Procedure was established for safety organisation.
- The company also adapted the project safety plan of the main contractor at project level for implementation of this element.

Safety training

- Procedure was established for safety policy.
- The company also followed the safety management system of the main contractor at project level for implementation of this element.



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### **Elements of safety management system**

### **Material findings**

In house safety rules and regulations

- Procedure was established for safety rules and regulations.
- The company also followed the safety management system of the main contractor at project level for implementation of this element.
- Minor irregularities were observed on sites with room for improvement in full compliance with safety rules and regulations.

Programme for inspection of hazardous conditions

- Procedure was established for programme for inspection of hazardous conditions.
- The company's registered safety officer had carried out frequent site visits.
- The company also participated in site safety inspections of the main contractor at project level and followed the safety management system of the main contractor at project level for implementation of this element.

Personal protection programme

- Procedure was established for personal protection programme. However, this procedure was not clearly set out in writing and further details in the procedure may be considered by us.
- The company adapted the safety management system of the main contractor at project level for implementation of this element.

Accident/incident investigation

- Procedure was established for accident/incident investigation. Procedures included follow-up actions on recommendations of investigation.
- The company also adapted the safety management system of the main contractor at project level for implementation.

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### **Elements of safety management system**

### **Material findings**

Emergency preparedness	<ul style="list-style-type: none"><li>• Procedure was established for emergency preparedness.</li><li>• The company also adapted the safety management system of the main contractor at project level for implementation of this element. The project staff and workers had participated in emergency drill of the main contractor.</li></ul>
Evaluation, selection and control of subcontractors	<ul style="list-style-type: none"><li>• Procedure was established for evaluation, selection and control of subcontractors.</li></ul>
Safety committee	<ul style="list-style-type: none"><li>• Procedure was established for safety committee.</li><li>• The company also adapted the safety management system of the main contractor at project level for implementation of this element.</li></ul>
Strengths and weakness of site conditions	<ul style="list-style-type: none"><li>• The company established procedures for process control programme in the health and safety manual and corporate safety plan.</li><li>• The company showed strength in among others, provision an maintenance of a safe and comfortable office, storage of materials and equipment and selection, provision and maintenance of mechanical plant and equipment.</li><li>• Opportunities for improvement were identified on site including (i) in relation to capping of sharp ends of certain reinforcement bars observed; and (ii) in relation to storing of timber planking.</li></ul>

In response to the findings of the safety audit report, we adopted the following rectification measures:

- In relation to the personal protection programme element, the safety plan has been updated and details of arrangements for personal protection programme section have been revised.
- In relation to weakness of site conditions identified, sharp ends of reinforcement bars were capped properly and timber planking has been moved away from improper storage area.

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Most recently, we arranged for the second safety audit and third safety audit to be conducted at corporate level and in relation to relevant projects and the results of such safety audit were materially similar to the results of the safety audit report issued in March 2017 except as noted below. A summary of the differences/updated material findings of the second safety audit report issued in August 2017 and third safety audit report issued in February 2018 as compared with the safety audit report issued in March 2017 is as follows:

<b>Elements of safety management system</b>	<b>Material findings of safety audit report issued in August 2017</b>	<b>Material findings of safety audit report issued in February 2018</b>
In house safety rules and regulations	<ul style="list-style-type: none"> <li>• Irregularities were observed on sites with room for improvement in full compliance with safety rules and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• Irregularities were observed on sites with room for improvement in full compliance with safety rules and regulations.</li> </ul>
Programme for inspection of hazardous conditions		<ul style="list-style-type: none"> <li>• The company's safety supervisor was appointed to carry out daily site inspection.</li> </ul>
Personal protection programme	<ul style="list-style-type: none"> <li>• Procedure was established for personal protection programme. The procedures have clearly described the relevant arrangements in writing.</li> </ul>	<ul style="list-style-type: none"> <li>• Procedure was established for personal protection programme. The procedures have clearly described the relevant arrangements in writing.</li> </ul>
Accident/incident investigation		<ul style="list-style-type: none"> <li>• The company observed the advice from Labour Department and main contractor to follow up from the lesson learnt.</li> </ul>
Strengths and weakness of site conditions	<ul style="list-style-type: none"> <li>• Opportunities for improvement were identified on site including (i) in relation to suspension of trailing cables; (ii) in relation to maintenance of safety alert rods at the rear side of excavator; and (iii) in relation to the standard of some of the guard rails on the catwalks.</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity for improvement identified on site relates to the proper position of safety alert rods maintained at the rear side of excavator.</li> </ul>

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In response to the findings of the safety audit reports, we continued to observe relevant safety rules and regulations and rectify the irregularities identified in the aforesaid safety audit reports. Taking into account the overall implementation of the elements of the safety management systems and the nature of the irregularities and areas of improvement identified (namely observation of state of certain equipment/supplies which were rectified with relative ease through relocation, replacement, etc.) in safety audit reports including certain improvements identified in the third safety audit as compared to the first and second safety audit, our Directors believe that there were no material deficiencies in our safety management system.

### **Accidents during the Track Record Period**

Although our Group has implemented a safety plan to mitigate safety risks, the occurrence of accidents at construction sites cannot be completely eliminated due to the work nature in the construction industry. As confirmed by our Directors for each of the three years ended 31 March 2017, for the eight months ended 30 November 2017 and from 1 December 2017 to the Latest Practicable Date, we recorded 56 accidents which gave rise or may give rise to potential employees' compensation claims and personal injury claims, involving nine, 16, four, 23 and four workers who were employed by our Group and/or our subcontractors.

Based on our Directors' best knowledge after making all reasonable enquiries, the table below sets forth the nature of the aforesaid 56 accidents occurred during the Track Record Period and up to the Latest Practicable Date:

<b>Nature of accident</b>	<b>Number of accident</b>
1 Trapped in or between objects	4
2 Injured whilst lifting or carrying	17
3 Slip, trip or fall on the same level	4
4 Striking against fixed or stationary object	6
5 Striking against moving object	7
6 Struck by moving or falling object	4
7 Contact with moving machinery or object being machined	1
8 Others	13
	<hr/>
Total	56
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The aforesaid 56 accidents include one accident caused by striking against moving object and resulted in a fatal injury in October 2017. For details, please refer to the paragraph headed "Litigation and Potential Claims – Fatal accident" in this section.

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During the Track Record Period and up to the Latest Practicable Date, among the 56 accidents mentioned above, (i) eight accidents had escalated to legal proceedings related to employee compensation and/or personal injury claims; (ii) 40 accidents where the time limit for filing an employee's compensation claim and/or personal injury claims under common law had not yet expired but no legal proceedings have been commenced in relation thereto as at the Latest Practicable Date; and (iii) eight accidents where their respective time limit for filing an employee's compensation and personal injury claim under common law had been passed and we had paid approximately HK\$300,000 in total as compensation to the injured workers before they escalated to legal proceedings. Among the abovementioned eight accidents which had escalated to legal proceedings, (i) one accident related to employee's compensation claim and personal injury claim was fully settled by the amount/notice of acceptance of sanction payment in a sum of approximately HK\$188,000; (ii) one accident related to employee's compensation claim and personal injury claim that were on-going; (iii) three accidents related to employee's compensation claim were on going; (iv) one accident with respect to employee's compensation claim was fully settled by the amount/notice of acceptance of sanction payment being approximately HK\$430,000 but the relevant personal injury claim under common law was on going; (v) one accident in respect of employee's compensation claim that was fully settled but the time limit for filing a personal injury claim under common law has not yet expired; and (vi) one accident involved a personal injury claim which was on-going. Further, among the abovementioned 56 accidents, we and other relevant contractors were liable to pay in aggregate approximately HK\$3.6 million for employees' compensation for 26 accidents before the claims could escalate to legal proceedings. To the best knowledge of our Directors, the said sum of HK\$3.6 million was settled and paid or reimbursed by the insurers under the relevant insurance policy taken out by the relevant main contractors.

Injured workers may claim against us pursuant to the Employees' Compensation Ordinance and/or common law. With respect to injuries where the injured workers have only made an employees' compensation claim, the compensation paid to the injured workers under the Employees' Compensation Ordinance would not exempt our liabilities under common law. Pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the limitation period for making a claim for personal injury under common law is three years from the date of the relevant accident. As such, it is still possible for the injured worker to institute claims against us under common law provided that the imitation period had not yet expired as at the Latest Practicable Date. On the other hand, the compensation paid to such injured worker, if any, would be reduced and off-set by the compensation already paid to the worker under the Employees' Compensation Ordinance. For further details of outstanding litigation and potential claims relating to employees' compensation claims under Employees' Compensation Ordinance or personal injuries claims under common law, please refer to the paragraph headed "Litigation and Potential Claims" in this section.

Despite the above, our liabilities for causing injuries to our employees or the employees of our subcontractors in Hong Kong would be sufficiently covered by the insurance maintained either by the main contractor of the relevant project, whether the claims are made under the Employees' Compensation Ordinance and/or at common law in Hong Kong.

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In the event of any industrial accidents resulting in serious personal injuries or death, we require our workers or employees of our subcontractors to report any accident to us for our further reporting to the main contractors (if any). Our project manager, upon notification, will carry out the accident investigation procedures on site. The preliminary investigation includes basic information of the occurrence, photographed and recorded evidence collected on site, statements from witnesses (if any) and potential causes. A detailed investigation report alongside recommended remedial actions will be circulated to all parties concerned including the Company's Safety and Health Management Committee, Foreman and the related subcontractor. Relevant parties are required to implement the proposed remedial actions and our safety personnel will inspect such implementation. Depending on the needs of our customers, our safety officer may assist our customers to prepare the necessary form(s) to Labour Department accordingly.

Furthermore, our Group adopted the following enhanced safety measures to prevent future accidents and protect the employees of our Group and subcontractors:

- (i) establishing the induction scheme which new construction workers will have an induction safety training provided by the main contractor within the first day in the respective construction site to equip with adequate knowledge with regards to safety and their work and/or relevant risk and hazard on work site;
- (ii) establishing a training scheme for our construction workers without any experience working in a construction site within the first day in respect of the construction site safety, risks and hazards as well as knowledge with respect to the construction site and our working relationship with the main contractor;
- (iii) providing sponsorship for our employees to attend seminars and training sessions with respect to safety and skills development;
- (iv) arranging talks with construction workers after the occurrence of industrial accidents, which workers are allowed to express their opinion in relation to the safety topics in the respective tool box talks;
- (v) promoting workers' safety awareness in manual lifting; against fall from height and falling object; and to prevent slip and trip and improving on site cleanliness and tidiness; and
- (vi) setting up a drill program with the execution of emergency drill from time to time to keep workers' safety awareness.

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The table comparing the construction industry average accident and fatality rate against our Group on the basis of accident rate per 1,000 workers and fatality rate per 1,000 workers is set out below:

	<b>In construction industry (Note 1)</b>	<b>Our Group's construction Sites (Note 2)</b>
<b>Year ended 31 December 2014/31 March 2015</b>		
accident rate per 1,000 workers	41.9	32.9
fatality rate per 1,000 workers	0.24	Nil
<b>Year ended 31 December 2015/31 March 2016</b>		
accident rate per 1,000 workers	39.1	51.0
fatality rate per 1,000 workers	0.2	Nil
<b>Year ended 31 December 2016/31 March 2017</b>		
accident rate per 1,000 workers	34.5	15.3
fatality rate per 1,000 workers	0.09	Nil

*Notes:*

- (1) The accident rates are for each of the three years ended 31 December 2016. Figures based on Occupational Safety and Health Statistics Bulletin No. 16 (August 2016) and No. 17 (August 2017) published by Occupational Safety and Health Branch of Labour Department, which the accident rate is calculated as the occurrence of industrial accidents during the year divided by the employment size which are based on the Quarterly Report of Employment and Vacancies Statistics published by the Census and Statistics Department.
- (2) The accident rates are for each of the three years ended 31 March 2017. Our Group's accident rate is calculated as the occurrence of reportable accidents during the year divided by the daily average construction site workers (including both employees of our Group and subcontractors) in our construction sites during the year and multiplied by 1,000.
- (3) The above table does not include the one fatal accident which occurred in October 2017. For further details, please refer to the paragraph headed "Litigation and potential claims" in this section.

A table showing our Group's lost time injuries frequency rates ("LTIFR(s)") is set out below:

For the year ended 31 March 2015	13.1
For the year ended 31 March 2016	20.6
For the year ended 31 March 2017	7.0
For the eight months ended 30 November 2017	76.2

*Notes:*

- (1) LTIFR is a frequency rate that shows the amount of lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by using the total labour hours worked per year/period to divide the number of reportable cases and multiply by 1,000,000. The

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number of working days for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017 were approximately 296 days, 293 days, 300 days and 202 days respectively.

- (2) Our Directors confirm that there is no public information in relation to the average LTIFRs of the construction industry in Hong Kong.

We experienced an increase in accident rate from 32.9 for the year ended 31 March 2015 to 51.0 for the year ended 31 March 2016. Our Directors believe that it was primarily due to the following reasons:

- (i) there was an increase in the number of projects in progress for the year ended 31 March 2017. The opening number of contracts increased from 20 for the year ended 31 March 2015 to 24 for the year ended 31 March 2016. Also, some of the projects awarded to us during the year ended 31 March 2016 are of larger scale and higher scale of complexity, such as Project 16, a composite development, and Project 33, a composite development, both of which had an original contract sum of over HK\$100 million and required large scale deep excavation works; and
- (ii) though our Group had started to employ a safety officer and engage a former external safety consultant to monitor the safety of our projects since May 2014. However, due to the increase in projects in progress with higher complexity for the year ended 31 March 2016, our Directors believe that this former external safety consultant failed to cope with the same.

In view of the increase in accident rate for the year ended 31 March 2016, we have employed an additional safety officer rather than engaging an external safety consultant to monitor the safety of our projects since December 2016.

Also, we experienced a significant increase in LTIFR from approximately 7.0 for the year ended 31 March 2017 to 76.2 for the eight months ended 30 November 2017. Our Directors observe that it was primarily due to the increase in minor injuries, which would not result in any material loss of working capacity of the injured workers, such as slight cuts, scratches and minor bruises since late 2016. In view of the increase in the number of accidents for the year ended 31 March 2016 and to strengthen our safety measures, we engaged an additional safety officer. The safety officer advised our Group to adopt a more stringent reporting policy pursuant to which our foremen shall instantly inform our safety officers and Directors of all industry accidents irrespective of their materiality so that (i) the rights of all injured employees can be better protected; and (ii) our Directors can be kept timely informed of the causes of the accidents and the status of each employees' compensation claim arose therefrom and can be provided with better information for assessing the conditions and safety environment of our construction sites. For the eight months period ended 30 November 2017 and the period from 1 December 2017 up to the Latest Practicable Date, our Group recorded 23 and four injuries, respectively. Out of these 27 injuries, 18 employees' compensation claims have either been settled or withdrawn by the injured workers at their own initiative and our Group has paid a total sum of approximately HK\$24,000 as compensations for these 18 employees' compensation claims.



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In consideration of the increase in number of industry accidents for the eight months ended 30 November 2017 and the circumstances around the one fatal accident which happened during the Track Record Period and up to the Latest Practicable Date, our Directors have taken the following remedial actions/additional safety measures:

- (i) for the fatal accident, an independent safety consultant has been engaged by our Group, and it has assigned a registered safety auditor to ascertain the implementation status of our safe system of work, to investigate the accident and to provide recommendations to prevent the recurrence of similar accident. Our Directors also interviewed relevant staff and reviewed relevant training procedures and guidelines. After the investigation, the safety auditor takes the view, and our Directors concur, that our Group's safety measures were adequate and effective. For details, please refer to the paragraph headed "Litigation and Potential claims – Potential employees' compensation claims and personal injury claims as at the Latest Practicable Date – Fatal accident" in this section. Nevertheless, our Group has implemented the following procedures for its lifting operation as advised by the safety auditor to prevent to recurrence of similar accident:
  - (a) a hydraulic sheet pile driver operator must communicate with the rigger and ensure the sheet pile has been securely fixed by shackle and chain sling prior to operation;
  - (b) a rigger shall leave from lifting zone after rigging and the hydraulic sheet pile driver operator must ensure nobody staying within the lifting zone while lifting;
  - (c) the course of lifting operation must be entirely supervised by a lifting supervisor; and
  - (d) enhanced training must be provided to all workers in similar trade so as to enhance their safety awareness; and
- (ii) for minor industry accidents, additional briefing sessions in relation to workplace housekeeping have been provided by our safety officers to our worker, so as to ensure our construction sites are free of slip and trip hazards.

Our Directors believe that our Group's effort in enhancing safety measures will help prevent future accidents. Our Group will continue to deploy adequate resources and try our best effort to maintain and enhance our safety management policy in order to mitigate our risks related to safety issues. Our Internal Control Consultant is of the view that, given the above safety measures adopted, the risk of recurrence of similar future accidents has been sufficiently mitigated.

**ENVIRONMENTAL COMPLIANCE**

Our Group is committed to environment protection by conducting our business in an environmentally responsible manner. We aim to prevent pollution, reduce waste and enhance waste recycling from our operation through implementing an environmental management system.

During the Track Record Period, the aggregate annual costs incurred by our Group for compliance with applicable environmental laws and regulations in Hong Kong was approximately HK\$25.5 million, HK\$36.1 million, HK\$29.5 million and HK\$9.8 million, respectively, and was mainly attributable to the levy imposed by the Government on waste disposal required under applicable laws and regulations. During the Track Record Period, our Group had not been prosecuted by any governmental authority for breaching any applicable environmental laws and regulations relating to environmental protection.

**INSURANCE**

During the Track Record Period, we participated or were involved in the insurance policies which set out in the following paragraphs.

It is a common practice in the construction industry in Hong Kong, as well as a common term in most construction contracts between main contractors and customers, that the main contractor of a project shall take out and maintain employees' compensation insurance under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and contractors' all risks insurance for the entire project. The coverage of such insurance policies includes all works performed by the main contractor and all its subcontractors. As such, when we act as a subcontractor, we generally do not have to take out or maintain any insurance policies related to employee compensation and contractors' all risks arising in relation to the project and instead, we can rely on the insurance policies taken out and maintained by the relevant main contractor. In such case, there is always an explicit clause providing such reliance in the relevant subcontracts.

**Employees' compensation**

Pursuant to section 40 of the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). We have taken out insurance policies in accordance with such requirements.

According to section 24 of the Employees' Compensation Ordinance, we are liable to pay compensation to any injured employee of our subcontractors, who was injured in the course of his/her employment to our subcontractors in carrying out the subcontract works for us. Such liabilities are covered by the aforementioned insurance policies taken out by our main contractors. In addition, under section 24 of the Employees' Compensation Ordinance, we are, nonetheless, entitled to be indemnified by the sub-subcontractor who, as the actual employer of the injured employee, would have been liable to pay compensation to the injured employee.

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

Contractors' all risks insurance policies generally cover potential loss, damage or destruction to the buildings, structures and any other constructions under our foundation works as well as potential bodily injury to third parties or damage to third parties' properties as a result of the performance of our services with respect to foundation works.

### **Other insurance coverage maintained by our Group**

We have maintained the insurance coverage against, among other matters, (i) general office risks including loss or damage to our office contents and any bodily injury occurring in our office premises; and (ii) loss or damage to our motor vehicles and third-party liability in relation to the use of our motor vehicles.

Our Directors consider that our insurance coverage is adequate and consistent with industry norm regarding our current scope of operations. During the Track Record and up to the Latest Practicable Date, we had not made, and had not been the subject of, any material insurance claim.

## **MARKET AND COMPETITION**

According to the CIC Report, the foundation industry in Hong Kong is relatively fragmented with the top five foundation works contractors accounting for approximately 58.5% market share in 2017. The success factors in the foundation industry in Hong Kong mainly include: (i) technological advancement; (ii) sufficient capital; (iii) experienced management team and (iv) proven track record.

Our Directors consider that there are a number of market entry barriers to the foundation industry in Hong Kong, which hinder new player entries. Such entry barriers mainly include (i) high capital requirements; (ii) lack of relevant licenses and registration; (iii) lack of proven track record of successful project completions and (iv) technical barrier. Details of the entry barriers are set out in the paragraph headed "Industry overview – Entry barriers of Hong Kong's foundation industry" in this prospectus.

In view of the competition in the construction industry, we believe that our competitive strengths have contributed to the success of our Group and under the management of our experienced Directors and senior managements, our Group is well positioned to capture the growing demand for the foundation industry. For further details of our competitive strengths, please refer to the paragraphs headed "Business – Competitive Strengths" in this prospectus.

## **SEASONALITY**

Our Directors believe that the construction industry in which we operate does not exhibit any significant seasonality.

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### LICENCES AND PERMITS

When we undertake subcontracting works for construction projects, if the main contractors hold all the required registration for the said project, we are not required to hold the same registration as the main contractor. However, in order to build up a pool of capable and responsible subcontractors with specialised skills and strong professional ethics, the Construction Industry Council has introduced the SRS for subcontractors taking part in building and engineering works. The Airport Authority, Development Bureau, Housing Authority and some private organizations are in support of the scheme. As a result, for their projects, main contractors will be required to engage registered subcontractors under the SRS for carrying out their subcontract works.

To enhance the recognition as an active partner in the construction industry, two of our operating subsidiaries have been registered with the Construction Industry Council under the SRS, details of which are as follows:

Registration	Trade Code	Trade Specialty	Granted by	Granted to	Date of registration	Date of next renewal
Registered subcontractor	01.01 Demolition	Demolition	Construction Industry Council	HCC Foundations	August 2016	August 2018
	01.02 Foundation and piling	Foundation and piling				
	01.03 Concreting formwork	Concreting formwork				
	01.04 Reinforcement bar fixing	Reinforcement bar fixing				
	01.05 Concreting	Concreting				
	01.06 Concrete precast component	Concrete precast component				
	01.08 Structural steelwork	Structural steelwork				
	01.09 General Civil Works	Earthwork				
	01.09 General civil works	Road drainage and sewer				
	01.10 Other structural and civil trades	Other structural and civil trades				
03.21 Other E&M trades	Other E&M trades					

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Registration	Trade Code	Trade Specialty	Granted by	Granted to	Date of registration	Date of next renewal
	04.05 Temporary water supply installations	Temporary water supply installations				
	04.06 Temporary electricity installations	Temporary electricity installations				
Registered subcontractor	01.01 Demolition	Demolition	Construction Industry Council	HCC Transportation	July 2016	July 2018
	01.02 Foundation and piling	Foundation and piling				
	01.03 Concreting Formwork	Concreting Formwork				
	01.04 Reinforcement bar fixing	Reinforcement bar fixing				
	01.05 Concreting	Concreting				
	01.06 Concrete precast component	Concrete precast component				
	01.08 Structural steelwork	Structural steelwork				
	01.09 General civil works	Earthwork				
	01.09 General civil works	Road drainage and sewer				
	01.10 Other structural and civil trades	Other structural and civil trades				
	03.21 Other E&M trades	Other E&M trades				
	04.05 Temporary water supply installations	Temporary water supply installations				
	04.06 Temporary Electricity Installations	Temporary Electricity Installations				

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Renewal of the aforementioned registrations is required every two years. As we had not experienced any refusal of registration on the registration scheme or any regulatory action brought by the Construction Industry Council during the Track Record Period and up to the Latest Practicable Date, our Directors believe that we should not encounter any difficulties in obtaining the renewal of any registrations in the future.

### **Designated workers for designated skills provision**

On 1 April 2017, the “designated workers for designated skills” provision under the Construction Workers Registration Ordinance came into effect, whereby construction workers will generally be forbidden from undertaking the construction works of the designated trade divisions unless they are registered skilled or semi-skilled workers for the relevant trade division or under the instruction and supervision of the relevant skilled or semi-skilled workers. Please refer to the section headed “Laws and Regulations – Labour, health and safety” in this prospectus for further details. Our Directors confirm that as at the Latest Practicable Date, all of our site staff carrying out construction works on construction sites were registered as registered construction workers under the Construction Workers Registration Ordinance. Our Group will ensure that our subcontractors and their employees will be registered under the required trade divisions for the construction projects undertaken by us or work under the supervision of skilled or semi-skilled worker.

Our Directors, upon obtaining legal advice, confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had obtained and held all the approvals, permits, consents, licences and registrations required for our business and operations in Hong Kong, and that all of them remain in force.

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### RECOGNITIONS AND AWARDS

The following table sets out certain major non-recurring awards and recognitions obtained by us:

Year of Award	Recipient	Award	Project/Description of project	Awarding organisation or authority
2017	HCC Foundations	Outstanding performance in work-at-height safety prize in the building sites – sub-contractors category	Project 40, a home ownership scheme development	Labour Department
2017	HCC Foundations	Gold prize in building sites – sub-contractors category	Project 40, a home ownership scheme development	Labour Department
2016	HCC Foundations	Best safety subcontractor award for the month of September 2016	Project 36, a public housing development	Customer B
2016	HCC Foundations	Best safety subcontractor award for the third quarter (July to September) of 2016	Project 40, a home ownership scheme development	Vibro (H.K.) Limited
2013	HCC Transportation	New work project – outstanding contractors award (domestic sub-contractor – drainage)	As public rental housing development	Hong Kong Housing Authority
2009	HCC Transportation and Mr. Chan	Certificate of commendation	A residential development	Hong Kong Housing Authority

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### OUR EMPLOYEES

#### Number of employees

As at the Latest Practicable Date, we had 216 employees (including our Directors) who were directly employed by us in Hong Kong. The following table sets out the number of our employees by their functional role:

	As at 31 March		For the eight months ended 30 November 2017		As at Latest Practicable Date
	2015	2016	2017	2017	
Directors (of our Group)	2	2	2	2	2
Project team (including project managers, quantity surveyor and foremen)	21	21	26	23	21
Safety officer	–	1	2	2	2
Administration, human resources, accounting and finance	5	3	9	12	12
Direct site workers (including casual workers, technical staff and machine operators)	230	126	116	140	179
<b>Total</b>	<b>258</b>	<b>153</b>	<b>155</b>	<b>179</b>	<b>216</b>

The following table sets out the average number of our casual workers who are remunerated based on the number of days they have worked for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017:

	For the year ended 31 March			For the eight months ended 30 November 2017
	2015	2016	2017	2017
The average number of casual workers ( <i>Note</i> )	206	220	121	129

*Note:* The average number of our Group's casual workers for each of the financial years/period is calculated as follows:

(the number of our casual workers as at the month-end date for the 12 months from 1 April to 31 March of the next year)/12.



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The number of casual workers to be employed based on individual project size, project duration, the type of work being carried out and the stage of work, and their remuneration is calculated based on the number of days they have worked. Pursuant to the CIC Report, it is a market norm for direct labour in the construction industry to be employed on a casual basis where they would in general be made redundant upon the completion of a project. Our Directors consider that the decrease in the average number of casual workers for the year ended 31 March 2017 was a result of the completion of our Group's large scale projects, i.e. Project 30 and Project 33 before or at the beginning of the year ended 31 March 2017.

### **Relationship with staff**

Our Directors consider that we have maintained good relationships with our employees. We had not experienced any significant problem with our employees or any material disruption to our operations due to labour disputes nor had we experienced any difficulty in the recruitment or retention of experienced staff or skilled personnel during the Track Record Period and up to the Latest Practicable Date.

### **Training and recruitment policies**

We generally recruit our employees through internal referral or from the open market. We place recruitment advertisements for recruitment purpose.

We provide various trainings, including those on occupational health and safety in relation to work to our employees to improve their technical competence, knowledge of construction regulatory requirement and it is our Directors' intention to nourish talents and strengthen their loyalty through sponsoring them with necessary trainings.

### **Remuneration policy**

We entered into separate labour contract with every employee in accordance with the applicable labour laws in Hong Kong. The remuneration package we offer to our employees includes salary, bonuses, other cash subsidies and allowances. In general, we determine employee salaries based on each employee's qualifications, experience and capability and the market remuneration rate. 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 adjustments, bonuses and promotions. For some in-house site staff, our Group employs them as daily workers and their remuneration package includes salary and overtime allowances.

Our staff costs, including wages, salaries and other employee's benefits, amounted to approximately HK\$77.8 million, HK\$114.5 million, HK\$67.5 million and HK\$42.7 million for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively.

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### RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we had not engaged in any research and development activity.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group has registered three trademarks in Hong Kong (for further details, please refer to the paragraph headed “Further information about the business of our Group – 2. Intellectual property rights of our Group” in Appendix V to this prospectus).

As at the Latest Practicable Date, our Group is the owner of the following domain name which are considered by our Directors, are material to the business of our Group:

<b>Domain name</b>	<b>Registrant</b>	<b>Registration date</b>	<b>Expiry date</b>
<b>hcho.com.hk</b>	HCC Transportation	4 June 2012	4 June 2018

Save as the above, as at the Latest Practicable Date, we did not have any material intellectual property rights (whether registered or pending registrations) that are significant to our business operations or financial positions. As at the Latest Practicable Date, we had not engaged in, and were not aware of, any litigation or legal proceedings for the violation of intellectual property rights or any material violation.

### OUR PROPERTIES

#### Owned property

During the Track Record Period and up to the Latest Practicable Date, our Group did not own any property.

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### Leased Property

As at the Latest Practicable Date, we leased the following properties for our business operations:

Address	Landlord	Use of the property	Approximate saleable area (sq. meters)	Major terms of the tenancy
Unit 903–905, 9/F, The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	An Independent Third Party	Office	117.6	Monthly rental of HK\$35,000 (exclusive of rates, Government rent, management fees air-conditioning charge and other outgoings) with the term commencing from 3 May 2016 to 2 May 2019 (both dates inclusive)
Address	Landlord	Use of the property	Approximate site area (sq. meters)	Major terms of the tenancy
Lot No. 561 and the remaining portion of section B of Lot No. 547 in D.D. 114	An Independent Third Party	Open storage	2,448.3	Monthly rental of HK\$80,000 (exclusive of rates, Government rent, licencing fee or related charge) with the term commencing from 1 June 2017 to 31 May 2019 (both dates inclusive)

Save as disclosed above, our Group did not have any other property interests as at the Latest Practicable Date.

### NON-COMPLIANCE

Set out below is a summary of our non-compliance incidents occurred during the Track Record Period and up to the Latest Practicable Date. With respect to the non-compliances arising from the use of our previous leased property at Kinglet Industrial Building, Nos. 21–23 Shing Wan Road, Shatin (the “**Previous Leased Property**”), the non-compliances were systemic as they were repeated breaches until the tenancy agreements related to the Previous Leased Property have been terminated. Up to the Latest Practicable Date, our Group has not been prosecuted for the non-compliances set out below. All these non-compliances have been duly rectified as before the Latest Practicable Date.

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### Laws and regulations in relation to employees' compensation

Details of the non-compliance	Applicable laws and regulations	Reasons for the non-compliance	Maximum penalty/likely penalty/actual penalty of the non-compliance	Remedial/rectification actions taken
During the Track Record Period and up to the Latest Practicable Date, HCC Foundations failed to serve notice of accident to the Labour Department for 26 employees within 14 days after the happening of the accident.	Section 15 of the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) ("ECO")	The breach was not willful and due to the inadvertent oversight of the staff responsible for filing such notice.	<p>A maximum fine of HK\$50,000 on each conviction.</p> <p>As advised by the Joint Counsel, the prosecution against HCC Foundations for 23 of such breaches have been time-barred. Accordingly, the maximum fine for the remaining cases is HK\$150,000.</p> <p>Based on our previous clear record and that the relevant form was subsequently filed, on the basis of the qualification, experience, knowledge and familiarity with the prosecution policy, the Joint Counsel are of the view that the penalty to be imposed, if convicted, would be on the low side.</p>	<p>Given that the relevant notices were served, no further remedial actions were taken.</p> <p>For the preventive measures taken, please refer to the Note below.</p>

*Note:* Our Directors note that there may be a number of scenarios where there is a material lapse in time from the occurrence of an accident to when the relevant staff responsible for filing the relevant notices are informed of the accident which contribute to the number of relevant breaches. These scenarios include accidents involving minor injuries which are not obvious to staff overseeing the project and which the affected worker may not immediately bring to our notice until the injuries manifest later and they wish to make a claim. There may be further delay for accidents affecting workers for our sub-contractors at our projects where the relevant information is first provided to our sub-contractors before reaching our responsible staff. Although our Directors believe that we have taken remedial/rectification actions to minimise the occurrence of breaches, such material lapses are not completely within our control and additional breaches may occur inadvertently from time to time.

To prevent recurrence of similar non-compliance in the future, we revisited our work injuries reporting procedures and had formalised it into our internal control manual for staff to follow. Our human resources manager and the qualified safety officers will also be responsible to administer and oversee the reporting process of site injuries.

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As part of our enhanced internal control measures, our site agents are required to enquire with all site workers whether any accidents or injuries had taken place and report the result to Mr. Lam Tak Keung (“**Mr. Lam**”), a member of our senior management, at the end of each working day. Furthermore, our safety officers, under the supervision of our executive Director Mr. Chan, will be responsible for ensuring that all our employees’ accidents or injuries will be reported to the Commissioner of Labour within 14 days through the relevant main contractor or by us. Mr. Chan will follow up with the relevant main contractor to ensure all our employees’ accidents or injuries reported to the relevant main contractor will subsequently be reported to the Commissioner of Labour by such main contractor within 14 days, failing which we will report to the Commissioner of Labour ourselves to ensure compliance with the ECO. Mr. Lam will be responsible for reporting to our Board any material findings of the registered safety auditor, whom we engage to conduct the safety audit at the corporate level every six months, as such findings may cover the accident investigation and reporting procedures of our Group. Our Directors believe that the above enhanced internal control measures allow us to (i) promptly follow-up on necessary fillings after an incident or injury occurs; and (ii) understand and update our internal controls based on best practices from time to time as understood from external sources, thereby further enhancing the effectiveness of our internal controls in preventing future non-compliances.

Our Internal Control Consultant has reviewed our work injuries reporting procedures in our internal control manual and our injuries reporting administration and oversight responsibility delegations to the human resources manager and the qualified safety officers. It is of the view that these measures are reasonably effective in preventing future non-compliances.

Accordingly, based on the above scenarios where additional breaches may inadvertently occur and reasonableness of the remedial/rectification actions taken (including the enhanced internal control measures adopted) into account the administrative nature of and the maximum penalty, the view of our Internal Control Consultant, our Directors are of the view, and the Sole Sponsor concurs, that the remedial/rectification actions (including the enhanced internal control measures adopted) are reasonably effective in preventing future non-compliances, and the repeated breaches should not impugn the competence of our Directors under Rule 3.09 of the Listing Rules.

Details of the non-compliance	Applicable laws and regulations	Reasons for the non-compliance	Maximum penalty/likely penalty/actual penalty of the non-compliance	Remedial/rectification actions taken
During the Track Record Period, HCC Foundations failed to pay an employee the amount of compensation stated in the certificate issued by the Labour Department within the prescribed time.	Section 16A of the ECO	The breach was not willful and due to the inadvertent oversight of the staff responsible for making payment.	As advised by the Joint Counsel, the maximum fine is HK\$101,697.87. However, given our Group’s previous record and that the relevant compensation was subsequently paid, the chance of being prosecuted would be remote.	Given that the amount was paid, no further remedial actions were taken. To prevent recurrence of similar non-compliance in the future, our injury compensation payment had been formalised into our internal control manual for staff to follow. Our qualified safety officers will conduct oversight over the injury compensation payment procedure.

**Laws and regulations in relation to safety**

Details of the non-compliance incidents	Applicable laws and regulations	Reasons for the non-compliance	Maximum penalty/likely penalty/actual penalty of the non-compliance	Remedial/rectification actions taken
<p>During the Track Record Period, HCC Foundations failed to appoint a registered safety auditor to conduct safety audit at the corporate level and in relation to four projects.</p>	<p>Sections 13 and 34 of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong) (“FIUSMR”).</p> <p>It is required under FIUSMR that a contractor in carrying out construction works with a contract value of HK\$100 million or more or having an aggregate of 100 or more workers in a day working in one or more construction sites is required to appoint a registered safety auditor to conduct a safety audit to collect, assess and verify information on the efficiency, effectiveness and reliability of its safety management system at least once in every six months. The safety audit report shall cover the ten safety audit requirements as set out in Parts 1 and 2 of Schedule 4 of the FIUSMR.</p>	<p>The breach was not willful and due to the mistaken belief that only the main contractor has to perform this duty. Our mistaken belief was also contributed by our reliance on previous external safety consultants which did not advise us on such requirements under the FIUSMR.</p>	<p>A maximum fine of HK\$200,000 and imprisonment for up to six months. The relevant section of the regulation does not stipulate or provide for any liability to be attributed to the directors of the relevant proprietor or contractor.</p> <p>Based on the completion dates of the projects, the non-compliance incidents relating to four projects are time-barred. The Joint Counsel is of the view that the likelihood of the Group being prosecuted for the said non-compliance incidents is remote. As HCC Foundations is a legal person and is the relevant proprietor or contractor for purposes of the relevant provisions of the aforesaid regulation, only HCC Foundations would be charged but not our Directors. Accordingly, our Directors would not be subject to the imprisonment penalty in this case. Furthermore, if HCC Foundations is so charged and convicted, the imprisonment penalty will not be applicable as a company cannot be sentenced to any imprisonment term.</p>	<p>We appointed a registered safety auditor to conduct a safety audit at the corporate level in compliance with the FIUSMR in February 2017, and the audit report was filed with the Labour Department in March 2017. We also appointed a registered safety auditor to conduct a safety audit at the corporate level and in relation to two projects in August 2017 and at the corporate level and one project in February 2018. We filed the second and the third audit reports with the Labour Department in September 2017 and April 2018 respectively.</p> <p>To prevent recurrence of similar non-compliance in the future, our qualified safety officers will oversee our safety compliance. They will also work closely with human resources staff, who have records of the number of workers on-site from time to time for payroll purposes, to monitor whether certain projects fall within the ambit of the rule.</p> <p>Furthermore, an external safety consultant with registered safety auditors is also engaged for providing timely and professional advice regarding safety compliance issues.</p>

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*Note:* Our Directors note that (i) we have established in-house safety plan and specified various safety measures as detailed in the paragraph headed “Occupational health and safety” in this section; (ii) we were awarded with certain safety awards as detailed in the paragraph headed “Licences and permits - Recognition and awards” in this section; and (iii) our Directors’ showed willingness to better understand issues which arise and enhance our Group’s internal control systems or otherwise take remedial and rectification measures when such issues are discovered. Accordingly, our Directors believe that looking at the breaches of the FIUSMR alone does not adequately reflect the either our Directors’ competence or safety conditions in our Group’s projects generally. Based on the views of the Joint Counsel and that up to the Latest Practicable Date, we have not received any notice of prosecution for the aforesaid breaches, our Directors further believe that such incidents did not have any material adverse impact on our business and operations.

Our Internal Control Consultant has reviewed the qualification of our safety auditor and the latest safety audit report. It is of the view we have implemented sufficient mitigation measures to address the material findings in the report. Further, it has reviewed our delegation of safety compliance oversight responsibility to the qualified safety officers and the human resources staff, and our appointment of an external safety consultant with registered safety auditors to provide timely and professional advice regarding safety compliance issues. It is of the view that these measures have appropriately mitigated the risk of future breaches to the FIUSMR.

Taking into account the reasons for the non-compliance (including the reliance on professional advice), our Group’s safety practices and safety measures and continued enhancement despite the breaches of the FIUSMR, and aforesaid assessment of the impact of the breaches of the FIUSMR, no material deficiencies in relation to safety were identified in the safety audit reports issued in March 2017, August 2017 and February 2018, our Directors are of the view, and the Sole Sponsor concurs, that the breaches of the FIUSMR should not impugn the competence of our Directors under Rule 3.09 of the Listing Rules.

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### Laws and regulations in relation to leased properties

Details of the non-compliance incidents	Applicable laws and regulations	Reasons for the non-compliance	Maximum penalty/likely penalty of the non-compliance	Remedial/rectification actions taken
<p>During the Track Record Period, HCC Foundations leased a property in Kinglet Industrial Building Nos. 21–23 Shing Wan Road, Shatin which was originally used as our office. The property however is located within an area zoned for “Industrial” and therefore its usage as an office was in breach of the relevant outline zoning plan.</p>	<p>Section 20 of the Town Planning Ordinance (Chapter 131 of the Laws of Hong Kong) (“TPO”)</p>	<p>The breach was not willful and due to the inadvertent oversight of the administrative staff responsible for tenancy affairs and the absence of the timely and professional advice during the material time.</p>	<p>Maximum fine of HK\$500,000 on the first conviction and on subsequent conviction, a fine of HK\$1,000,000.</p> <p>As advised by Legal Counsel, since the tenancy of these three properties were terminated, it was a past breach and the likelihood of prosecution is low.</p>	<p>Effective on 22 June 2017, we terminated the tenancy agreement for the property in Kinglet Industrial Building Nos. 21–23 Shing Wan Road, Shatin. Prior to the termination, we relocated our office and the property was subsequently used as a warehouse.</p>
<p>During the Track Record Period, HCC Transportation leased a property at Lot No. 1560 in D.D. 107 which was used for open storage and HCC Foundations leased a property in Lot Nos. 605SBP, 607P, 310P, 611, 612SBRP, 613SB, 614SBRP and 608P in D.D. 111 which was also used for open storage. These properties however are located within an area zoned for “Comprehensive Development Area” and a property in “Village Type Development” respectively and therefore their usage was in breach of the relevant outline zoning plan.</p>				<p>Effective on 31 May 2017 and 15 June 2017, we terminated the tenancy agreements for the property at Lot No. 1560 in D.D. 107 and the property at Lot Nos. 605SBP, 607P, 310P, 611, 612SBRP, 613SB, 614SBRP and 608P in D.D. 111. Given that we have successfully relocated the machinery and materials stored on such two leased properties to our other leased premises as at the Latest Practicable Date, we do not believe the relocation has materially affected our business or operations.</p> <p>All tenancy agreements shall be reviewed by our Directors, company secretary and financial controller. We shall seek advice from an external legal advisor to assist us in overseeing compliance issues related to the TPO.</p>



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Details of the non-compliance incidents	Applicable laws and regulations	Reasons for the non-compliance	Maximum penalty/likely penalty of the non-compliance	Remedial/rectification actions taken
<p>During the Track Record Period, HCC Foundations leased a property in Kinglet Industrial Building Nos. 21–23 Shing Wan Road, Shatin which was originally used as our office. As the prescribed use of the property is “Workshops and ancillary accommodation for non-domestic use” pursuant to the occupation permit, it was a material change of use which was in breach of the occupation permit.</p>	<p>Section 25 and 40 of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) (“BO”)</p>	<p>The breach was not willful and due to the inadvertent oversight of the administrative staff responsible for tenancy affairs and the absence of the timely and professional advice during the material time.</p>	<p>Maximum fine of HK\$100,000 and imprisonment for up to 2 years.</p> <p>As advised by Legal Counsel, it was a past breach and the likelihood of prosecution is low.</p>	<p>Effective on 22 June 2017, we terminated the tenancy agreement.</p> <p>We relocated our office and the property was subsequently used as a warehouse.</p> <p>All tenancy agreements shall be reviewed by our Directors, company secretary and financial controller. We shall seek advice from an external legal advisor to assist us in overseeing compliance issues related to the BO.</p>
<p>During the Track Record Period, HCC Foundations and HCC Transportation failed to duly stamp an aggregate of five tenancy agreements (including certain expired/terminated as at the Latest Practicable Date) within the prescribed time.</p>	<p>Section 4 and 9 of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong)</p>	<p>We inadvertently failed to stamp such tenancy agreement within the prescribed time.</p>	<p>Payment of the stamp duty and the relevant late penalty (maximum ten times the amount of stamp duty)</p> <p>Additionally, unstamped tenancy agreements are generally not admissible as evidence in any proceedings.</p>	<p>By 12 July 2017, we have duly stamped three of the aforesaid tenancy agreements with aggregate penalty of HK\$107,630 while two tenancy agreements which expired/terminated in 2015 were left unstamped. The estimated amount (including late penalty) is HK\$40,898.</p> <p>All tenancy agreements shall be reviewed by our Directors, company secretary and financial controller. Our financial controller shall ensure all tenancy agreement was stamped within the prescribed time.</p>

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### Non-compliance with government lease, deed of mutual covenant and tenancy agreement

Details of the non-compliance incidents	Reasons for the non-compliance	Legal consequences	Remedial/rectification actions taken
<p>During the Track Record Period, HCC Foundations leased a property in Kinglet Industrial Building Nos. 21–23 Shing Wan Road, Shatin which was originally used as our office. Subsequently it was used as our warehouse instead until the lease was terminated.</p>	<p>The breach was not willful and due to the inadvertent oversight of the administrative staff responsible for tenancy affairs and the absence of the timely and professional advice during the material time.</p>	<p>As advised by Legal Counsel, the government has the right of re-entry but since we already vacated the property, the cause of action became academic. However, the government is entitled to damages for the breach under civil action.</p>	<p>We relocated our office and the property was subsequently used as a warehouse.</p> <p>Effective on 22 June 2017, we terminated the tenancy agreement. Pursuant to the termination agreement, the respective obligations of the landlord and us ended upon the termination date.</p>
<p>The period in which the property was used as an office was in breach of (i) the government lease which sets out the property shall be used for industrial and warehouse purposes; and (ii) the deed of mutual covenants which provides that the use of the property should not be in contravention of the government lease.</p>		<p>As advised by Legal Counsel, the landlord is entitled to damages for the breach under civil action.</p>	<p>Our Directors confirmed that up to the Latest Practicable Date, we have not received any (i) civil claim from the government in connection with such breach to the government lease or the deed of mutual covenants; or (ii) any civil claim from the landlord in connection with such breach of the relevant tenancy agreement.</p>
<p>It was in breach of the tenancy agreement, which sets out the property should be used for industrial purpose.</p>			<p>All tenancy agreement shall be reviewed by our Directors, company secretary and financial controller. We shall seek advice from an external legal advisor to ensure the use of property would not be in contravention of the government leases before entering into the agreement.</p>

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In addition to the above, in April 2018, criminal charges were brought against HCC Foundations for breaches of the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) in relation to a fatal accident in October 2017. We intend to defend against these charges but there is a risk that we may be convicted if the court does not accept our defence (for further details and analysis, please refer to the paragraph headed “Business – Litigation and potential claims” in this section). As confirmed by our Directors, as at the Latest Practicable Date, save as disclosed above, our Group has complied in all material respects with the applicable laws and regulations in Hong Kong during the Track Record Period and up to the Latest Practicable Date. Saved as disclosed above, our Directors further confirmed that our Group did not receive any notices for any fines or penalties for any non-compliance that is material and systemic.

### **Indemnity given by our Controlling Shareholders**

Our Controlling Shareholders, collectively as the indemnifiers, entered into the 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 non-compliances 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 paragraph headed “Other information – 2. Tax and other indemnities” in Appendix V to this prospectus.

### **INTERNAL CONTROL**

To streamline the current internal control procedures and prevent any re-occurrence of non-compliance incidents, we engaged an independent internal control consultant (the “**Internal Control Consultant**”) in February 2017 to review the adequacy and effectiveness of our internal control procedures, systems and controls. The internal control consultant is a professional firm specialising in providing corporate governance, internal audit and internal control review services to new listing applicants and listed companies.

The objective of the internal control review is to assess and identify significant weakness in relevant procedures, systems and controls as established by our Group. A detailed evaluation was done by our Internal Control Consultant. Through an initial review during March and April 2017, our Internal Control Consultant identified some weaknesses and deficiencies in our internal control system and recommended certain measures to be implemented. Based on such recommendations, we implemented remedial measures on the areas including staff management, budget and risk management, information and communication system and internal audit functions to improve our internal control system.

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The Internal Control Consultant has identified the following key findings and our Group has taken the following remedial actions based upon the Internal Control Consultant's recommendations:

### KEY FINDINGS

### REMEDIAL ACTION TAKEN

Our Group had no formal internal control manual, compliance manual nor staff handbook.

Formal internal control manual, compliance manual and staff handbook had been prepared and adopted in June 2017.

Our Group had no internal audit department nor external consultant to help evaluate, monitor and improve the operating effectiveness of the internal controls.

Our Group has been sourcing and comparing quotations from external consultants for annual internal audit services, and will ensure that internal audit will be performed on an annual basis after the Listing.

Our Group had no formal procedures for reporting connected or related party transactions.

Formal procedures for identifying and reporting connected or related party transactions had been included in the internal control manual and compliance manual which has been adopted in June 2017.

Our Group had not established guidelines to refrain from trading with insider information and employees were not required to disclose any potential conflict of interests and to sign confidentiality agreements.

Our Group has included guidelines to refrain from trading with insider information in the staff handbook which was adopted in June 2017. In June 2017, our Group has also adopted standard forms for disclosure of potential conflict of interests and standard confidentiality agreement to be signed by all employees closer to the listing date.

Our Group had not prepared annual financial budgets and profit forecast.

Our Accounting Manager has been assigned to prepare and our financial controller to review financial budgets and profit forecast on at least an annual basis since June 2017.

### **Internal control measures to improve corporate governance**

In order to continuously improve our Group's corporate governance and other relevant legal and regulatory compliance in the future, our Group has adopted or will adopt the following measures recommended by the Internal Control Consultant:

1. On 20 June 2017 (and in respect of one Director, on 28 June 2017), our Directors attended a training session conducted by our legal adviser 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.
2. We have engaged Dakin Capital as our compliance adviser upon the Listing to advise us on regulatory compliance with the Listing Rules.
3. When necessary, we will engage external professional, including auditors, internal control consultant, external legal adviser(s) and other advisers to render professional advice as to compliance with statutory and regulatory requirements, as applicable to our Group from time to time.
4. On 14 May 2018, we established an audit committee which will implement formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts. It will also periodically review our compliance status with the Hong Kong laws after the Listing. The audit committee will exercise its oversight by:
  - (i) reviewing our internal control and legal compliance;
  - (ii) discussing the internal control systems with the management of our Group to ensure that the management has performed its duty to have an effective internal control system; and
  - (iii) considering the major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management's response to these findings.
5. Our Group 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 compliance when necessary and appropriate.
6. Our Group has adopted preventive measures to ensure our tendering process will not contravene with the Competition Ordinance (Chapter 619 of the Laws of Hong Kong), including not colluding with other market participants on any parameter of competition such as price and output. Our staff members are prohibited to enter into any kind of arrangements or agreements with our Group's competitors in the market

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that will cause price fixing, output restriction, market sharing or the rigging of potential bids or to conduct any acts which aims to prevent, restrict or distort competition in Hong Kong. Our Directors confirm that we will regularly seek legal advice on whether our arrangements comply with the Competition Ordinance;

7. We will adopt the following measures to manage our working capital and indebtedness after listing:

- (i) In terms of debt collection, our accounting manager, with the help of our quantity surveyors, will be required to prepare the trade receivables aging report on a monthly basis. The aging report will be reviewed by our financial controller and Directors.

Upon the trade receivables passing due over 15 days, our accounting manager will be responsible to inform our quantity surveyors to follow up. Follow up results, such as time, contact person and expected collection date, will be reported to our Directors for their review and consideration of further actions.

For trade receivables which had passed due over 3 – 6 months, written reminders will be issued. The outstanding sum will be followed up until satisfactory collection is achieved.

If the trade receivables had passed due over 1 year and the amount is relatively material, actions such as seeking legal recourse will be considered by our Directors.

- (ii) Monthly meeting will be held by our Directors to discuss our Group's cashflow.

Project budgets will be set before the beginning of a project. To monitor the execution of the budget and cater for any deviations along the construction progress, our Directors will review the budgets' execution on a monthly basis and at projects' key stages.

Our accounting department will be responsible to prepare management account regularly with liquidity ratio analysis to our Directors for their assessment of our Group's liquidity. The management account will be reviewed by our financial controller before submitted to our Directors for their further review and approval.

### **View of our Directors and the Sole Sponsor**

Based on the Internal Control Consultant's review and recommendations, our Group adopted the measures and policies to improve its internal control systems and to ensure its compliance with the Listing Rules and the relevant Hong Kong laws. Also, after the Internal Control Consultant performed their follow-up review in May and June 2017, they were satisfied that our Group has implemented the internal control measures according to their

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recommendation, they thus have not identified any further issues and have made no further recommendations in the respective areas covered in their reviews. Based on the results of the internal control reviews above, our Directors are of the view, and the Sole Sponsor concurs, that adequate and effective internal control procedure and policies have been put in place by our Group.

### **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 paragraphs headed “Customers – Reasons for our customer concentration” and “Customer – Sustainability of our business” in this section.

**(ii) Risk of potential inaccurate costs estimation and cost inflation**

Please refer to the paragraph headed “Pricing Strategy” in this section.

**(iii) Risk relating to suppliers’ and subcontractors’ performance**

Please refer to the paragraph headed “Suppliers – Selection of suppliers” and “Subcontracting – Control over subcontractors” in this section.

**(iv) Quality control system**

Please refer to the paragraph headed “Quality control” in this section.

**(v) Financial risks, in particularly foreign currency risk, credit risk and liquidity risk**

Please refer to the paragraph headed “Financial information – Financial risk management” in this prospectus and Note 26 in the Accountants’ Report in Appendix I to this prospectus.

**(vi) Risk of possible failure, damage or loss of machinery**

Please refer to the paragraph headed “Repair and maintenance and replacement” and “Assets protection” in this section.

**(vii) Health and safety system**

Please refer to the paragraph headed “Occupational health and safety” in this section.

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### (viii) Environmental management system

Please refer to the paragraph headed “Environmental compliance” in this section.

### (ix) Corporate governance measures

Please refer to the paragraph headed “Relationship with Controlling Shareholders – Corporate governance measures to safeguard the interest of shareholders” in this prospectus.

## LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group was involved in a number of claims and litigations. Our Directors are of the view that occurrence of personal injuries is not uncommon in the construction industry. Set out below is a summary of the on-going, potential and settled/withdrawn claims in legal proceedings involving our Group as at the Latest Practicable Date arising in the ordinary and usual course of our business.

### (I) On-going employees’ compensation claims and personal injury claims as at the Latest Practicable Date

As at the Latest Practicable Date, there were nine on-going claims in legal proceedings comprising of four on-going employees’ compensation claims and five on-going personal injury claims under common law. Details of the claims are as follows:

	Claimant/plaintiff	Date of the incident	Nature of the claim(s)	Nature of the incident	Total amount involved	Status
1	Subcontractor’s employee	18 June 2013	Personal injury claim	The claimant claimed for injuries to, among others, body and back after falling from a timber plank which broke when he was stepping on it	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.
2 and 3	Our employee	16 August 2014	Employees’ compensation claim and personal injury claim	The claimant claimed for injuries to the back sustained by falling off the bench after being hit at the work site	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.
4	Our employee	7 March 2015	Personal injury claim	The claimant sustained right ankle injury	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.



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	Claimant/plaintiff	Date of the incident	Nature of the claim(s)	Nature of the incident	Total amount involved	Status
5	Subcontractor's employee	18 July 2015	Personal injury claim	The claimant sustained back injuries while carrying a heavy beam	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.
6	Our employee	22 October 2015	Employee's compensation claim	The claimant claimed for injuries when hit and carried away by some of the flowing liquid concrete at the work site	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.
7	Our employee	22 October 2015	Personal injury claim	The claimant sustained injuries relating to falling liquid concrete, in the course of work	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.
8	Our employee	22 February 2016	Employee's compensation claim	The claimant suffered from right wrist injury as a result of losing balance and slipping to fall down in the course of work	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.
9	Subcontractor's employee	6 January 2017	Employee's compensation claim	The claimant sustained injuries to, among others, back and bilateral lower limbs, in particular right ankle and left knee after tripping over an iron mesh in the course of work	To be assessed by court	On-going. The insurer has taken over the conduct of the claim.

Our Directors confirm that all such claims (including employees' compensation claims and personal injury claims) are covered by the insurance maintained by the relevant main contractors or our insurance and would therefore not result in any material impact on the financial position or results and operations of our Group.

### **(II) Potential employees' compensation claims and personal injuries claims as at the Latest Practicable Date**

Up to the Latest Practicable Date, our Group recorded one personal injury accident which time limit for filing a personal injury claim under common law has not yet passed although the employee's compensation claim has been settled in legal proceedings. Up to the Latest Practicable Date, we also had 40 accidents which time limits for filing an employee's

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compensation claims and/or personal injury claims under common law in legal proceedings have not yet passed, one of which was a fatal accident as disclosed below. Potential common law personal injury claims which may arise from incidents which involve on-going employees' compensation claims are not counted given the potential for settlement of all claims.

Generally, injured persons may commence their claims under the Employees' Compensation Ordinance and/or their personal injury claims under common law within the limitation period of two years (for employees' compensation claims) or three years (for personal injury claims) from the date of the relevant accidents. Since no civil action has commenced, the claims, when filed, will be handled by solicitors appointed by the main contractors' insurers or our insurers. We are not in a position to assess the likely quantum of the aforesaid potential claims. As it is generally the obligations of the relevant main contractors in the project to effect proper insurance policies against damages, claims and compensation in respect of the persons who are employed to work at the construction sites and we have our own insurance policies as detailed in the paragraph headed "Insurance" in this section, our Directors believe that the potential employees' compensation claims and personal injury claims will be covered by the insurance maintained by the relevant main contractor or our insurance.

### *Fatal accident*

In October 2017, there was one incident involving fatal injury at the construction site whereby an employee of our Group was injured in the course of work and subsequently certified dead. On the date of the incident, an object fell on the deceased which resulted in a fatal injury. To the best knowledge of our Directors, no claims or litigations has been initiated against our Group relating to this accident as at the Latest Practicable Date except as noted below.

### *Investigation by us and view of the Directors*

After interviewing relevant staff and reviewing relevant training procedures and guidelines, our Directors are of the view that despite the accident, our Group's safety measures were adequate and effective due to the following reasons:

- based on review of the safety training records, the relevant staff on-site had relevant safety training for the work on-site;
- the main contractor and the ultimate customer had conducted relevant hazard identification and risk assessments as part of, among others, monitoring the safety risks on-site;
- our Group has provided adequate safety gear to the workers and had required them to wear them at their work; and
- regular safety inspections and site visits had been conducted by our safety officers and the Directors to ensure adequacy of safety measures at the site.

*Legal consequences and potential damages:*

- On 20 April 2018, criminal charges were brought against HCC Foundations by the Labour Department. Given that these charges were recently brought against us, up to 26 April 2018, we do not have all relevant evidence relied on by the prosecution except that they relate to the circumstances on 20 October 2017 at the worksite and date of the fatal accident and involve allegations that HCC Foundations failed to provide adequate supervision and safety systems for two employees of our Group including the deceased and an operator of machinery who was assisting in sheet pile lifting works. The specific charges include failure to (i) provide such supervision as necessary to ensure, the health and safety at work contrary to sections 6A(1), 6A(2)(c) and 6A(3) of the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) (“**FIUO**”); and (ii) provide and maintain a system of work for sheet pile extraction that were safe and without risks to the health of person contrary to sections 6A(1), 6A(2)(a) and 6A(3) of the FIUO. It is noted that pursuant to the relevant sections of the FIUO, the breach of the aforesaid FIUO sections only carries a monetary penalty and does not result in any imprisonment sentence. Furthermore, such charges were made against HCC Foundations only but not against our Directors or the senior management of our Group. As advised by the Joint Counsel, the aggregate maximum penalty if convicted of such charges is HK\$1,000,000. Our insurance policies do not cover any fines which may be imposed in connection with these charges but pursuant to the Deed of Indemnity, our Controlling Shareholder have agreed to indemnify our Group in respect of any liabilities and penalties which may arise as a result of any non-compliances of our Group on or before the date on which the Share Offer becomes unconditional (details of the Deed of Indemnity are set out in the paragraph headed “Other information – 2. Tax and other indemnities” in Appendix V to this prospectus).

The hearing at the magistrates’ court for the case is set for 24 May 2018. However, based on the case being in preliminary stages and as we are still seeking legal advice on the matter and have not yet been provided with the prosecution’s case (including their evidence relied on), there is insufficient information to fully assess the charges. Subsequent to the accident, a registered safety auditor was assigned by an independent safety consultant employed by HCC Foundations to investigate the accident. An investigation report prepared by such safety auditor and issued in November 2017 found, among others, that safe work procedures were disseminated to workers through safety training, that there was routine supervision by the foremen, and that the workers were well trained and qualified (including the deceased). The report then concluded that the accident was an individual event and there was a safe system of work implemented at the material time. Accordingly, we dispute and intend to defend against the charges. Having reviewed the available documents from our Company and considered among others, the summonses, the findings and conclusion from

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## BUSINESS

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the aforesaid report, the Legal Counsel, is of the view at this stage that given that the criminal standard of beyond reasonable doubt is a high standard, our prospect of success in the trial of the summonses and the merits of our defence is more than fair. Considering our intention to defend and therefore the possibility of acquittal, the merits of our defence based on the analysis above, the maximum penalty and the Deed of Indemnity provided by our Controlling Shareholders, our Directors believe, and the Sole Sponsor concurs, that the aforesaid charges would not have any material impact on our business operation or financial positions in the future.

Up to 26 April 2018, we have not yet received a personal injury claim in relation to this accident. In any event, the relevant insurance policies maintained by the relevant main contractor are expected to sufficiently cover the potential personal injury damages arising from the fatal accident. However, there is insufficient information to assess the likely quantum of the damages.

### **(III) Settled or withdrawn claims during the Track Record Period and up to the Latest Practicable Date**

During the Track Record Period and up to the Latest Practicable Date, we had settled the following claims in legal proceedings, which were covered by the insurance maintained by the relevant main contractors or our insurance:

	<b>Natures of the claim(s)</b>	<b>Particulars of the claims</b>	<b>Covered by insurance</b>
1	Employee's compensation claim and personal injury claim	On 15 May 2012, the claimant sustained injuries after being trapped between a panel and a l-beam platform.	Yes
2	Employee's compensation claim and personal injury claim	On 24 May 2012, the claimant sustained injuries to, among others, the head after a rock rolled down the slope hitting him.	Yes
3	Employee's compensation claim	On 18 June 2013, the claimant sustained injuries to, among others, body and back after falling from a timber plank which broke when he was stepping on it.	Yes
4	Employee's compensation claim and personal injury claim	On 3 January 2014, the claimant sustained injuries when a controller of excavator accidentally caused the bucket to loss control and hit him.	Yes

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**BUSINESS**

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	<b>Natures of the claim(s)</b>	<b>Particulars of the claims</b>	<b>Covered by insurance</b>
5	Employee's compensation claim and personal injury claim	On 23 April 2014, the claimant sustained injuries relating to scalding from hot liquid.	Yes
6	Employee's compensation claim	On 18 July 2015, the claimant sustained back injuries while carrying a heavy beam.	Yes
7	Employees' compensation claim	On 22 October 2015, the claimant sustained injuries relating to falling liquid concrete.	Yes

During the Track Record Period, we also received a labour tribunal claim from a worker but the court accepted the withdrawal of his claim on 8 February 2018.

During the Track Record Period and up to the Latest Practicable Date we had one criminal charge brought against HCC Transportation purporting that on 7 May 2014 it failed so far as practicable to ensure, for the purpose of preventing any such fall, that either a suitable barrier was erected as close as was reasonably practicable to the edge of the excavation; or the excavation was securely covered contrary to regulations 40(1), 68(1)(a) and 68(2)(f) of the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong). However, it was acquitted of this charge pursuant to an order dated 5 March 2015.

During the Track Record Period and up to the Latest Practicable Date, we had three criminal convictions in the following cases:

	<b>Relevant subsidiary</b>	<b>Particulars of the charges</b>	<b>Date of order</b>	<b>Penalties</b>
1	HCC Transportation	Purported that on 22 April 2015 failed to take adequate steps to prevent a person on a place where the construction work was being carried out from falling from a height of 2 metres or more contrary to regulations 38B(1A), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong).	25 April 2016	HK\$15,000

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## BUSINESS

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	<b>Relevant subsidiary</b>	<b>Particulars of the charges</b>	<b>Date of order</b>	<b>Penalties</b>
2	HCC Transportation	Purported that on 22 April 2015 failed to ensure that, so far as was reasonably practicable, suitable and adequate safe access to and egress from a place of work contrary to regulations 38AA(2), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong).	25 April 2016	HK\$10,000
3	HCC Transportation	Purported that on 22 April 2015 failed to take all reasonable steps to ensure that no workman employed to carry out the construction work remained on the site unless the workman was wearing a suitable safety helmet contrary to regulations 48(1A)(b), 68(1)(a) and 68(2)(b) of the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong).	25 April 2016	HK\$3,500

The above criminal convictions were all monetary penalty and such convictions were made against our Group but not against our Directors or the senior management of our Group.

As at the Latest Practicable Date, save as disclosed above, we are not aware of any current, pending or threatened litigation, claim of arbitration against our Group which could have a material adverse effect on our financial condition or results of operations.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme), each of our Controlling Shareholders, Mr. Chan, Ms. Chu and Oriental Castle will control approximately 75% of the issued share capital in our Company. For further details of the shareholding interest of our Controlling Shareholders, please refer to the paragraph headed “Further information about our Directors, Substantial shareholders and experts – 2. Substantial Shareholders” in Appendix V to this prospectus.

### RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders and Directors has confirmed that, he/she/it does not have and their respective close associates do not have interest in any business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having taken into account of the following factors, our Directors are satisfied that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the Listing.

#### Financial independence

We have our own independent accounting and finance team and make financial decisions according to our own business needs. During the Track Record Period and up to the Latest Practicable Date, our Group had banking facilities that was guaranteed by among others, Mr. Chan, one of our Controlling Shareholders, details of which are set out in the paragraph headed “Financial Information – Bank borrowings” in this prospectus. Such guarantee will be released upon Listing and will be replaced by corporate guarantee from our Company. During the Track Record Period, our Group had certain amount due to Mr. Chan, one of our Controlling Shareholders, as detailed in the paragraph headed “Financial Information – Amount due to a Director” in this prospectus, which are non-trade nature, will be fully settled before the Listing. Based on the above, we are financially independent of our Controlling Shareholders and their respective close associates.

Our Directors believe that, upon Listing, our Group is capable of obtaining financing from third parties without the support of our Controlling Shareholders. Therefore, our Group will be financially independent from our Controlling Shareholders and/or any of their respective close associates.

#### Operational independence

During the Track Record Period, Kam Lung Transport Co. was one of our top five largest suppliers and it provided construction waste disposal services to us (for further details of the historical arrangement and the non-exempt continuing connected transaction under the

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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framework transportation agreement with Kam Lung Transport Co., please refer to the paragraph headed “Connected transactions – Non-exempt continuing connected transaction” in this prospectus). Kam Lung Transport Co. is a sole proprietorship established by Mr. Tsang Leung Lung, who ceased to be a director of HCC Transportation on 16 March 2017. Mr. Tsang is also the brother-in-law of Mr. Chan. Despite this continuing arrangement after Listing and having considered (i) the usage of Independent Third Party services providers providing similar services to us during the Track Record Period including the usage of a service provider designated by the customer and leading to reduction in services obtained by Kam Lung Transport Co. for the year ended 31 March 2017 as compared to the years ended 31 March 2015 and 2016; and (ii) the availability of services providers providing similar services in the market generally, our Directors are of the view that our Group does not rely on the construction waste disposal services provided by Kam Lung Transport Co., and the using of their services does not affect the operational independence of our Group.

Having considered the above and that (a) we have established our own operational structure comprising individual teams, each with specific areas of responsibilities; (b) we have established a set of internal control procedures to facilitate the effective operation of our business; and (c) we have not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their associates. Accordingly, our Directors consider that our Group’s business operation to be independent from our Controlling Shareholders and their close associates.

### **Management independence**

Our Group’s management and operational decisions are made by our Board and a team of senior management. Our Board consists of five members, comprising of two executive Directors and three independent non-executive Directors. Although one of our Controlling Shareholders, namely Mr. Chan, will simultaneously be our executive Director and retain a controlling interest in our Company after the Listing, we consider that our Board and team of management will function independently because:

- (a) 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 or her personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted in the quorum;
- (c) with three independent non-executive Directors out of a total of five Directors in our Board, there will be a sufficiently robust and independent voice to the decision-making process of our Board to protect the interests of our independent Shareholders; and



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (d) our senior management members are independent and possess in-depth experience and understanding of the industry in which our Group is engaged.

Our Directors are therefore of the view that we are capable of managing our business independently from our Controlling Shareholders after the Listing.

### DEED OF NON-COMPETITION

For the purpose of the Listing, each of our Controlling Shareholders, Mr. Chan, Ms. Chu and Oriental Castle (collectively, the “**Covenantors**”) has given certain non-competition undertakings in favour of our Company (for itself and as trustee for and on behalf of other members of our Group) under the Deed of Non-competition, pursuant to which each of the Covenantors, irrevocably and unconditionally, jointly and severally, undertakes to and covenants with our Company (for itself and as trustee for the members of our Group) on the following terms with effect from the Listing Date and for as long as our Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their close associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue, or are otherwise regarded as Controlling Shareholders:

- (i) *undertaking not to engage in competing business*: each of the Covenantors shall not, and shall procure each of his/her/its close associates (other than our Group) not to, whether on his/her/its own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly (other than through our Group), whether as a shareholder, director, employee, partner, agent or otherwise (other than being a director or shareholder of our Group or members of our Group), carry on or be engaged in, directly or indirectly, a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest (save for the holding in aggregate by the Covenantors and their close associates of not more than 5% shareholding interest in any company listed on the Stock Exchange or any other stock exchange) or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or may in any aspect compete directly or indirectly with the business or which is similar to the business currently and may from time to time be engaged by our Group (including the foundation works in Hong Kong and businesses ancillary to any of the foregoing) (“**Restricted Business**”);
- (ii) *undertaking not to solicit staff etc.*: each of the Covenantors:
- a. will not, and will procure his/her/its close associates (other than our Group) not to, invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by our Group from time to time unless pursuant to the provisions stipulated in the Deed of Non-competition;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- b. will not offer employment to, enter into a contract for the services of, or attempt to solicit or seek to entice away from our Group any individual who is a director, officer, manager or employee of our Group, or procure or facilitate the making of any such offer or attempt by any other person;
  - c. will not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/her/its knowledge in his/her/its capacity as the Controlling Shareholder for any purposes other than for the exercise of shareholders' rights; and
  - d. will address such other enquiries as may be made by the Stock Exchange, the SFC, any other regulatory bodies or our Company from time to time;
- (iii) *undertakings in respect of new business opportunity*: if each of the Covenantors and/or any of his/her/its close associates (other than our Group) is offered or becomes aware of any project or new business opportunity ("**New Business Opportunity**") that relates to the Restricted Business, whether directly or indirectly, he/she/it shall:
- a. promptly in any event not later than seven days from the date of offer or becoming aware of the New Business Opportunity notify our Company in writing ("**Offer Notice**") of such opportunity and provide such information as is reasonably required by our Company in order to enable our Company to come to an informed assessment of such opportunity; and
  - b. use his/her/its best endeavours to procure that such opportunity is offered to our Company on terms no less favourable than the terms on which such opportunity is offered to he/she/it and/or his/her/its close associates (other than our Group).

If our Group gives a written notice declining the New Business Opportunity and confirming that the New Business Opportunity would not constitute competition with the business of our Group, or if our Group has not sent such written notice to the Covenantors within 30 business days from our Group's receipt of the Offer Notice, the Covenantors will be entitled to pursue the New Business Opportunity. The Covenantors agree to extend the 30 business days to a maximum of 60 business days if our Group requires further time to assess the New Business Opportunity by giving a written notice to the Covenantors within the original period of 30 business days.

(iv) *general undertakings*: each of the Covenantors shall:

- a. provide our Company and our Directors (from time to time) with all information necessary and requested by the independent non-executive Directors, including but not limited to monthly turnover records and any other relevant documents considered necessary by the independent non-executive Directors for their annual review with regard to the compliance and/or enforcement of the terms of the

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Deed of Non-competition and the enforcement of the non-competition undertakings in the Deed of Non-competition;

- b. provide our Group, after the end of each financial year of our Company, with a declaration made by each of the Covenantors which shall state whether or not he/she/it has during that financial year complied with all the terms of the Deed of Non-competition, and if not, particulars of any non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in the annual report of our Company for the relevant financial year, such annual declaration shall be consistent with the principles of making voluntary disclosure in the corporate governance report of our Group;
- c. allow our Directors, their respective representatives and the auditors to have sufficient access to the records of the Covenantors and he/her/its close associates to ensure their compliance with the terms and conditions under the Deed of Non-competition; and
- d. on demand do all such acts and things and execute all such deeds and documents as may be necessary to carry into effect or give legal effect to the provisions of the Deed of Non-competition and the transactions contemplated.

Each of the Covenantors has undertaken to our Company that he/she/it will abstain from voting on the board level or the shareholder level of our Company and will not be counted in the quorum if there is any actual or potential conflict of interest in relation to the Restricted Business and the New Business Opportunity.

To ensure that the terms of the Deed of Non-competition are observed, our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with and the enforcement of the Deed of Non-competition; and (ii) all the decision made by our Group in relation to whether to take up any New Business Opportunity.

### **CORPORATE GOVERNANCE MEASURES TO SAFEGUARD THE INTEREST OF SHAREHOLDERS**

Our Company will adopt the following corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) compliance with the Listing Rules, in particular strictly observe any proposed transactions between us and connected persons and comply with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules where applicable;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (b) appointment of Dakin Capital Limited as our compliance adviser to advise us on the compliance matters in respect of the Listing Rules and applicable laws and regulations;
- (c) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the meetings of the Board on matters in which such Director or his/her close associates have an actual or potential material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (d) appointment of three independent non-executive Directors in order to achieve a balanced composition of executive and non-executive Directors in our Board. Our independent non-executive Directors will conduct annual review on the compliance of the Deed of Non-competition and the enforcement thereby by our Company. We believe our independent non-executive Directors possess the qualification, integrity and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Further details of our independent non-executive Directors are set out in the section headed “Directors, senior management and employees” of this prospectus;
- (e) our Controlling Shareholders have undertaken and agreed 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
- (f) our Company will disclose decisions with basis on matters reviewed by our independent non-executive Directors in relation to the compliance with and the enforcement of the Deed of Non-competition either through our Company’s annual report or by way of announcement to the public.

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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS

Prior to the Listing, we entered into certain transactions with parties who will, upon Listing, become our connected persons within the meaning given in Chapter 14A of the Listing Rules. After the Listing, we will continue to carry out the following transactions with these parties and such transactions will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

Details of these transactions are set out in this section below.

### RELEVANT CONNECTED PERSONS

The following relevant persons will be our connected persons as defined under the Listing Rules upon Listing:

- Kam Lung Transport Co. is a sole proprietorship established by Mr. Tsang Leung Lung. Mr. Tsang Leung Lung ceased to be a director of HCC Transportation, one of our subsidiaries, on 16 March 2017. Mr. Tsang Leung Lung is also the brother-in-law of Mr. Chan. Accordingly, Mr. Tsang Leung Lung and Kam Lung Transport Co. are deemed to be connected persons of our Company.
- The following individuals are /deemed to be connected persons of our Company and their relationships with our connected persons including Mr. Chan, one of our executive Directors and our Controlling Shareholder, and Mr. Tsang Leung Lung are set out below:
  - (i) Ms. Chan Sze Nga is the daughter of Mr. Chan and the niece of Mr. Tsang Leung Lung;
  - (ii) Ms. Chan Mei Po is the niece of Mr. Chan and Mr. Tsang Leung Lung; and
  - (iii) Mr. Tsang Ue Sum is the nephew of Mr. Chan and the son of Mr. Tsang Leung Lung.

Accordingly, the following transactions with Kam Lung Transport Co., Ms. Chan Sze Nga, Ms. Chan Pei Po and Mr. Tsang Ue Sum which will continue after the Listing, will constitute continuing connected transactions of our Group under Chapter 14A of the Listing Rules.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions are fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### **Employment contract with Ms. Chan Sze Nga**

On 1 April 2017, Ms. Chan Sze Nga entered into a written employment contract with HCC Foundations, pursuant to the terms of which Ms. Chan Sze Nga was employed by HCC Foundations as an assistant manager to Mr. Chan. Previously, she was engaged as a consultant of HCC Foundations pursuant to an agreement dated 16 April 2012 and for each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the fees by us to Ms. Chan Sze Nga were approximately HK\$270,000, HK\$622,000, HK\$1,056,000 and HK\$560,000, respectively.

We expect Ms. Chan Sze Nga shall continue to be employed by us as an assistant manager upon, and following, the Listing. Our Directors estimate that the annual salary payable to Ms. Chan Sze Nga shall not exceed HK\$910,000, HK\$910,000 and HK\$910,000 for each of the years ending 31 March 2019, 2020 and 2021 respectively, as determined by our Directors with reference to the contractual amount payable to Ms. Chan Sze Nga under the employment contract, and the expected increase in her salary during the relevant period.

Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5%, with annual aggregated values below HK\$3,000,000, the transaction constitutes a de minimis continuing connected transaction, which is exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

### **Employment contract with Ms. Chan Mei Po**

On 1 October 2015, Ms. Chan Mei Po entered into a written employment contract with HCC Foundations, pursuant to the terms of which Ms. Chan Mei Po was employed by HCC Foundations as a human resources manager. For each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the annual salary (inclusive of benefits) paid by us to Ms. Chan Mei Po were nil, approximately HK\$202,000, HK\$364,000 and HK\$326,000, respectively.

We expect Ms. Chan Mei Po shall continue to be employed by us at the same position upon, and following, the Listing. Our Directors estimate that the annual salary payable to Ms. Chan Mei Po shall not exceed HK\$585,000, HK\$615,000 and HK\$645,000 for each of the years ending 31 March 2019, 2020 and 2021 respectively, as determined by our Directors with reference to the contractual amount payable to Ms. Chan Mei Po under the employment contract, and the expected increase in her salary during the relevant period.

Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5%, with annual aggregated values below HK\$3,000,000, the transaction constitutes a de minimis continuing connected transaction, which is exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### **Employment contract with Mr. Tsang Ue Sum**

On 16 December 2016, Mr. Tsang Ue Sum entered into a written employment contract with HCC Foundations, pursuant to the terms of which Mr. Tsang Ue Sum was employed by HCC Foundations as a safety officer. For each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the annual salary (inclusive of benefits) paid by us to Mr. Tsang Ue Sum were nil, nil, approximately HK\$112,000 and HK\$224,000, respectively.

We expect Mr. Tsang Ue Sum shall continue to be employed by us at the same position upon, and following, the Listing. Our Directors estimate that the annual salary payable to Mr. Tsang Ue Sum shall not exceed HK\$364,000, HK\$383,000 and HK\$412,000 for each of the years ending 31 March 2019, 2020 and 2021 respectively, as determined by our Directors with reference to the contractual amount payable to Mr. Tsang Ue Sum under the employment contract, and the expected increase in his salary during the relevant period.

Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5%, with annual aggregated values below HK\$3,000,000, the transaction constitutes a de minimis continuing connected transaction, which is exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

### **Confirmations from our Directors**

Our Directors (including our independent non-executive Directors) have confirmed that the terms of each of the above employment contracts were entered into, and conducted, on normal commercial terms or better, and in the interests of our Company and Shareholders as a whole.

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTION**

The following continuing connected transaction will be subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

### **Framework Transportation Agreement**

Kam Lung Transport Co. and our Company for ourselves and for the benefits of our subsidiaries entered into a framework transportation agreement on 14 May 2018 (the "**Framework Transportation Agreement**") in respect of the provision of construction waste disposal services by Kam Lung Transport Co. to our Group. The Framework Transportation Agreement is for a term commencing on the Listing Date and expiring on 31 March 2021. Under the Framework Transportation Agreement, the parties agree that the supply of such services shall be based on normal commercial terms agreed after good faith and arm's length negotiations between the parties. Furthermore, the parties shall review and negotiate the service fees from time to time as a result of prevailing market price for construction waste disposal services of comparable nature and scale, which should be in any event no less favorable to our Group than is available to Independent Third Parties. Specific supply arrangement relating to particular



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## CONNECTED TRANSACTIONS

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services shall be governed by separate sub-agreements or orders agreed between Kam Lung Transport Co. and a member of the Group (“**Sub-Agreements**”) and the general principles of supply under the Framework Transportation Agreement.

### *Reasons for and benefits for the transaction*

Our Group does not own dump trucks, and our Directors consider that it is neither cost-effective nor in the best interest of our Group to own the dump trucks solely for the purpose of providing construction waste disposal services, therefore we historically contracted with Kam Lung Transport Co. and certain other companies for providing such services.

However, taking into account that we have established a long-term relationship with Kam Lung Transport Co. which has been providing construction waste disposal services to our Group since 2009, our Directors believe there is a more efficient communication with Kam Lung Transport Co. and better understanding of the needs of our Group by Kam Lung Transport Co. as compared to other Independent Third Parties.

Since we are satisfied with the construction waste disposal service provided by Kam Lung Transport Co., including the quality of services during the Track Record Period and based on the other reasons set out above, our Directors are of the view that the transaction contemplated under the Framework Transportation Agreement brings synergies to the operation of our Group and we intend to continue such arrangements after Listing.

### *Pricing policy and internal control*

The service fees payable by our Group to Kam Lung Transport Co. under the Framework Transportation Agreement (and the Sub-Agreements) will be determined after arm’s length negotiation between the parties with reference to the prevailing market price for construction waste disposal services of comparable nature and scale, which should be in any event no less favorable to our Group than is available to Independent Third Parties. In order to ensure that the service fees we paid for the provision of construction waste disposal services are fair and reasonable and in line with market practices, we will keep ourselves abreast of the prevailing fee level in the market and the market conditions.

The entering into of the Sub-Agreements under the Framework Transportation Agreement shall be overseen by our senior management, and shall be approved by our Board pursuant to our policy on related party transaction. Upon the Listing, we shall adopt similar policy on connected transactions in accordance with the Listing Rules. As such, our Directors are of the view that there are adequate internal controls in place to ensure that the entering into of the Sub-Agreements with terms and conditions in line with those of the Framework Transportation Agreement.

Furthermore, our independent non-executive Directors and auditors will conduct annual review of our transactions under the Framework Transportation Agreement (including the fees charged in respect of the transactions) and provide annual confirmations in accordance with the



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## CONNECTED TRANSACTIONS

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Listing Rules that the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the pricing policy.

### *Historical amounts*

For the year ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the service fees payable by us to Kam Lung Transport Co. in respect of construction waste disposal services were approximately HK\$19,299,000, HK\$26,260,000, HK\$9,233,000 and HK\$6,148,000, respectively.

Our Directors note that for the year ended 31 March 2017, we used a service provider designated by the customer and leading to reduction in services obtained by Kam Lung Transport Co. for that year. However, our Directors believe that this case does not affect the overall relationship with Kam Lung Transport Co. in the future. Our Directors further note that during the period from 1 December 2017 and up to 31 March 2018, the service fees payable by us to Kam Lung Transport Co. in respect of construction waste disposal services was approximately HK\$5.4 million based on the demand during this period from the commencement of certain projects. Accordingly, despite the aforesaid historical fees payable by us to Kam Lung Transport Co. for the eight months ended 30 November 2017, by taking into account the fees for the year ended 31 March 2018 (being approximately HK\$11.5 million) as well as the other factors mentioned in the sub-paragraph headed ‘Basis of annual caps’ below, our Directors believe that the historical transaction amount remain in line with our expected demand for Kam Lung Transport Co.’s services in the future.

### *Proposed annual caps*

For the years ending 31 March 2019, 2020 and 2021, the service fees payable by us to Kam Lung Transport Co. in respect of construction waste disposal services shall not exceed HK\$15,000,000, HK\$15,000,000 and HK\$15,000,000, respectively.

### *Basis of annual caps*

Such proposed cap amounts are mainly determined with reference to factors such as (i) the historical transaction amount between our Group and Kam Lung Transport Co.; (ii) expected demand for the services of our Group by its customers and awarded contracts for the coming years; and (iii) cost plus reasonable profit margins with reference to that charged by Independent Third Parties to our Group.

### *Listing Rules implications*

Given that the annual transaction amounts under the Framework Transportation Agreement are expected to not exceed HK\$15,000,000, HK\$15,000,000 and HK\$15,000,000 for the years ending 31 March 2019, 2020 and 2021 respectively, at least one of the applicable percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules, where applicable, in respect of the Framework Transportation Agreement, on an annual basis, is expected to be more

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## CONNECTED TRANSACTIONS

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than 5%, which constitutes continuing connected transaction after the Listing, and will be subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **Waiver application**

Our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the continuing connected transaction under the Framework Transportation Agreement is subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including the requirement for publishing an announcement and a circular and obtaining approval of the independent Shareholders in relation to transactions under the Framework Transportation Agreement.

In respect of such non-exempt continuing connected transaction, we have, pursuant to Rule 14A.105 of the Listing Rules, applied to the Stock Exchange, and the Stock Exchange granted a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules subject to the condition that the aggregate value of the transactions under the Framework Transportation Agreement for each financial year does not exceed the relevant annual cap amount as stated above.

Our Directors have confirmed that apart from announcement, circular and shareholders' approval requirement of which the waiver is sought, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules after the Listing.

If any terms of the transactions subject to the waiver are altered or if we enter into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, we shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this prospectus, we will take immediate steps to ensure compliance with such new requirements within reasonable time.

### ***Confirmations from our Directors***

Our Directors, including the independent non-executive Directors, are of the view that (i) the Framework Transportation Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of our Group and are based on arm's length negotiations and on normal commercial terms or terms no less favourable than that offered by the Independent Third Parties; (ii) the terms of the Framework Transportation Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (iii) the proposed annual caps for the non-exempt continuing connected transaction under the Framework Transportation

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## CONNECTED TRANSACTIONS

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Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of us and our Shareholders as a whole.

*Confirmations from the Sole Sponsor*

The Sole Sponsor is of the view that (i) the Framework Transportation Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of our Group, based on arm's length negotiations and on normal commercial terms and the terms of the Framework Transportation Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) the proposed annual caps for the non-exempt continuing connected transaction under the Framework Transportation Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of us and our Shareholders as a whole.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### GENERAL

The following table sets out certain information in respect of our Directors and senior management:

Name	Age	Position	Date of joining our Group	Date of appointment as Director/senior management	Relationship with other Directors and senior management	Roles and responsibilities
<i>Directors</i>						
Mr. Chan Siu Cheong (陳紹昌)	62	Chairman of our Board, chief executive officer of our Company and executive Director	15 October 1996	2 June 2017	N/A	Overall management and overseeing and monitoring of projects and machineries of our Group
		Chairman of the nomination committee				
Mr. Sin Ka Pong (單家邦)	59	Executive Director	1 December 2016	2 June 2017	N/A	Overall management and business development of our Group
		Member of the remuneration committee				
Mr. Ho Chi Wai (何志威)	43	Independent non-executive Director	13 May 2018	13 May 2018	N/A	Providing independent judgement to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct
		Chairman of the audit committee and member of the nomination committee				
Mr. Cheung Kwok Yan Wilfred (張國仁)	38	Independent non-executive Director	13 May 2018	13 May 2018	N/A	Providing independent judgement to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct
		Chairman of the remuneration committee and member of the audit committee				

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Name	Age	Position	Date of joining our Group	Date of appointment as Director/senior management	Relationship with other Directors and senior management	Roles and responsibilities
Mr. Lau Leong Ho (劉亮豪)	34	Independent non-executive Director  Member of the audit committee, remuneration committee and nomination committee	13 May 2018	13 May 2018	N/A	Providing independent judgement to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct
<i>Senior Management</i>						
Mr. Lam Tak Keung (林德強)	53	Project manager	8 August 2012	8 August 2012	N/A	Overall management of site works including quality control and safety supervision
Mr. Kyaw Sai Hong (左世康)	36	Financial controller/ Company secretary	1 February 2017	1 February 2017	N/A	Overseeing our Group's finance and accounts function and internal controls; and providing financial and business advice to the Board and senior management of our Group

### Executive Directors

**Mr. CHAN Siu Cheong (陳紹昌)**, aged 62, is the chairman of our Board, the chief executive officer of our Company and an executive Director. He was appointed as a Director on 2 June 2017 and was re-designated as an executive Director, the chairman of the Board and the chief executive officer of our Company on 14 May 2018. Mr. Chan is also the chairman of the nomination committee. Mr. Chan is the founder of our Group and has been a director of HCC Foundations and HCC Transportation since their year of incorporation in 2009 and 1996 respectively. Prior to founding our Group, Mr. Chan worked in the foundation industry as a sub-contractor engaged in foundation works including excavation, concreting and underground drainage works in the early 1980s until he founded HCC Transportation. Mr. Chan has over 30 years of experience in the construction industry. Mr. Chan is responsible for overall management and overseeing and monitoring of projects and machineries of our Group.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Chan was a director of the following companies, which were dissolved (but not due to member's voluntary winding-up) with details as follows:

<b>Name of company</b>	<b>Date of dissolution</b>	<b>Details</b>
Shek Dao Engineering Company Limited	23 September 2011	A Hong Kong incorporated company dissolved by de-registration under section 291AA of the Predecessor Companies Ordinance ( <i>Note 1</i> )
World Hill International Limited	21 March 2003	A Hong Kong incorporated company dissolved by striking off under section 291(6) of the Predecessor Companies Ordinance ( <i>Note 2</i> )
Hing Cheong Engineering Limited	20 October 2017	A Hong Kong incorporated company dissolved by de-registration under section 751 of the Companies Ordinance ( <i>Note 3</i> )

*Notes:*

- (1) Under section 291AA of the Predecessor Companies Ordinance, an application for de-registration can only be made if (a) all the members of such company agreed to such de-registration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application for de-registration; and (c) such company has no outstanding liabilities.
- (2) Under section 291 of the Predecessor Companies Ordinance, where the Registrar of Companies has reasonable cause to believe that a company is not carrying on business or in operation, the Registrar may strike the name of the company off the register after the expiration of a specified period.
- (3) Under section 751 of the Companies Ordinance, an application for de-registration can only be made if in addition to the conditions for section 291AA of the Predecessor Companies Ordinance mentioned above, (a) the company is not a party to any legal proceedings; (b) the company's assets do not consist of any immovable property situate in Hong Kong; (c) if the company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong; and (d) the company is not a company specified under section 749 of the Companies Ordinance.

Mr. Chan confirms that immediately prior to their respective dissolutions, Shek Dao Engineering Company Limited, World Hill International Limited and Hing Cheong Engineering Limited were inactive companies. Mr. Chan further confirms that prior to their dissolutions, each of the above companies was solvent.

Mr. Chan has confirmed that there is no fraudulent act or misfeasance on his part leading to the dissolution and struck-off of such companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution and struck-off of such companies. Given that the dissolutions of the above companies did not involve any dishonesty or fraudulent act on the part of Mr. Chan, and did not raise any questions as to the

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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integrity of Mr. Chan, our Directors are of the view, and the Sole Sponsor concurs, that Mr. Chan is suitable to act as a Director under Rule 3.08 and 3.09 of the Listing Rules.

Mr. Chan is one of our Controlling Shareholders. Mr. Chan is also the spouse of Ms. Chu, one of our Controlling Shareholders.

**Mr. SIN Ka Pong (單家邦)**, aged 59, is an executive Director. He was appointed as a Director on 2 June 2017 and was re-designated as an executive Director on 14 May 2018. Mr. Sin is also a member of the remuneration committee. Mr. Sin joined our Group in December 2016 with the title of Executive Director of HCC Foundations. Mr. Sin was officially appointed and has been a director of HCC Transportation since March 2017. Mr. Sin is responsible for overall management and business development of our Group.

Mr. Sin has over 30 years of experience in the construction industry. From July 1986 to May 1989, Mr. Sin was employed by Chun Yip Construction Company Limited and his position was contracts officer at the time of his departure. From June 1989 to November 1994, he was employed as a subletting manager by Sun Fook Kong Construction Limited. From January 1995 to June 1996, he was employed as a senior associate by Wexler Consultants (Hong Kong) Limited. From May 1997 to September 2001, he was employed as a subletting and procurement manager by Win House Industries Limited (a subsidiary of Kerry Properties Ltd. (stock code: 683)). From February 2003 to May 2004, Mr. Sin was employed as a managing quantity surveyor by China Railway Construction Corporation. From June 2004 to March 2006, he was employed as a senior project manager by Ming Wah Engineering (Development) Co., Ltd. From August 2012 to March 2014, he was employed as a manager (budget control) for New World Construction Company Limited (a subsidiary of New World Development Company Limited (stock code: 17)). From March 2014 to November 2016, he was seconded to Paul Y. – Yau Lee Joint Venture, a joint venture established for among others, construction of a Macau studio city project, as a senior commercial manager. Mr. Sin obtained a Bachelor of Quantity Surveying degree from the Polytechnic of Central London, now known as the University of Westminster in July 1983. He was elected as an associate of the Hong Kong Institute of Surveyors in September 1987. He was also a registered professional surveyor in quantity surveying division under the Surveyors Registration Board of Hong Kong in July 1996.

Mr. Sin was a director of the following companies, which were dissolved (but not due to member's voluntary winding-up) with details as follows:

<b>Name of company</b>	<b>Date of dissolution</b>	<b>Details</b>
Franrose Far East Limited	28 May 1999	A Hong Kong incorporated company dissolved by striking off under section 291(6) of the Predecessor Companies Ordinance ( <i>Note</i> )

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Name of company	Date of dissolution	Details
Wexler Consultants (Hong Kong) Limited	8 December 2006	A Hong Kong incorporated company dissolved by striking off under section 291(6) of the Predecessor Companies Ordinance ( <i>Note</i> )

*Note:* Under section 291 of the Predecessor Companies Ordinance, where the Registrar of Companies has reasonable cause to believe that a company is not carrying on business or in operation, the Registrar may strike the name of the company off the register after the expiration of a specified period.

Mr. Sin confirms that immediately prior to their respective dissolutions, Franrose Far East Limited was inactive and Wexler Consultants (Hong Kong) Limited was principally engaged in provision of consulting services. Mr. Sin further confirms that prior to their dissolutions, each of the above companies were solvent.

Mr. Sin has confirmed that there is no fraudulent act or misfeasance on his part leading to the dissolution and struck-off of such companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution and struck-off of such companies. Given that the dissolutions of the above companies did not involve any dishonesty or fraudulent act on the part of Mr. Sin, and did not raise any questions as to the integrity of Mr. Sin, our Directors are of the view, and the Sole Sponsor concurs, that Mr. Sin is suitable to act as a Director under Rule 3.08 and 3.09 of the Listing Rules.

### Independent Non-executive Directors

**Mr. HO Chi Wai (何志威)**, aged 43, was appointed as an independent non-executive Director on 13 May 2018. He is also the chairman of the audit committee and a member of the nomination committee of our Company. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Ho is currently a partner of SRF Partners & Co., CPAs. He obtained a Bachelor of Business Administration degree from Lingnan University (formerly known as Lingnan College) in November 1997 and a Master of Finance degree from Jinan University in December 2012. He is currently a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a certified tax adviser at the Taxation Institute of Hong Kong, an associate of the Taxation Institute of Hong Kong, and a fellow member of the Association of International Accountants. Mr. Ho has over 20 years of experience in audit assurance and business consulting. Prior to his own practice in 2012, Mr. Ho worked as an audit staff in a local accounting firm from 1997 to 2000, where he was promoted to an audit senior assistant in 1999. Mr. Ho joined a sizeable accounting firm as an audit senior in 2000 and from 2010 to 2011 he became a principal of the practice development department of the firm.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Ho is currently an independent non-executive director of Wai Chi Holdings Company Limited (stock code: 1305), the issued shares of which are listed on the Main Board. Mr. Ho was an independent non-executive director of Ming Kei Holdings Limited (now known as Capital Finance Holdings Limited) (stock code: 8239, a company listed on the Growth Enterprise Market of the Stock Exchange) from June 2012 to October 2013.

Mr. Ho was a director of ATH International Company Limited, a Hong Kong incorporated company dissolved by striking off under section 291(6) of the Predecessor Companies Ordinance on 1 December 2006. Mr. Ho confirms that immediately prior to its dissolution, ATH International Company Limited was principally engaged in general trading and was solvent.

Mr. Ho has confirmed that there is no fraudulent act or misfeasance on his part leading to the dissolution and struck-off of this company and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution and struck-off of such company. Given that the dissolution of the above company did not involve any dishonesty or fraudulent act on the part of Mr. Ho, and did not raise any questions as to the integrity of Mr. Ho, our Directors are of the view, and the Sole Sponsor concurs, that Mr. Ho is suitable to act as a Director under Rule 3.08 and 3.09 of the Listing Rules.

**Mr. Cheung Kwok Yan Wilfred (張國仁)**, aged 38, was appointed as an independent non-executive Director on 13 May 2018. He is also the chairman of the remuneration committee and a member of the audit committee of our Company. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Cheung graduated from the University of Buckingham in the United Kingdom with a Bachelor of Science (Economics) in February 2005. Mr. Cheung is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors, a member of the Institute of Chartered Accountants in England and Wales. Mr. Cheung joined Moores Rowland Mazars in September 2005 as an associate and was later transferred to Mazars CPA Limited after its reorganisation in June 2007. Mr. Cheung left Mazars CPA Limited in October 2007 as an associate and joined Grant Thornton as senior accountant in its China practice division until December 2008. Mr. Cheung then worked for the Royal Bank of Canada Europe Limited as accounts preparer in its CEES UK Department from March 2009 to January 2010. Mr. Cheung was employed by Rainbow Brothers Limited from February 2010 to August 2010 as senior associate in corporate finance. Mr. Cheung later joined Mega International Food Limited as its financial controller in September 2010 and was appointed as general manager of its fellow subsidiary, Poly Shining Limited, and Mr. Cheung left the group in March 2013. In August 2013, Mr. Cheung joined The Gate Worldwide Limited, an international advertising and marketing agency, as a senior finance manager and was promoted to a finance director in July 2015.

Mr. Cheung has been an independent non-executive director of HKE Holdings Limited (stock code: 1726), the issued shares of which are listed on the Main Board, since March 2018. He was an independent non-executive director of Chun Sing Engineering Holdings Limited

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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(stock code: 2277) (currently known as Huarong Investment Stock Corporation Limited), the issued shares of which are listed on the Main Board, from December 2014 to June 2016 and was an independent non-executive director of LEAP Holdings Group Limited (stock code: 1499), the issued shares of which are listed on the Main Board, from August 2015 to November 2017. Mr. Cheung was a director of Dot Com International Limited (得金國際有限公司), a Hong Kong incorporated company de-registered under section 751 of the Companies Ordinance and accordingly dissolved upon de-registration on 23 March 2018. Mr. Cheung confirms that immediately prior to its dissolution, Dot Com International Limited was inactive and was solvent.

Mr. Cheung has confirmed that there is no fraudulent act or misfeasance on his part leading to the dissolution of this company and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of such company. Given that the dissolution of the above company did not involve any dishonesty or fraudulent act on the part of Mr. Cheung, and did not raise any questions as to the integrity of Mr. Cheung, our Directors are of the view, and the Sole Sponsor concurs, that Mr. Cheung is suitable to act as a Director under Rule 3.08 and 3.09 of the Listing Rules.

**Mr. LAU Leong Ho (劉亮豪)**, aged 34, was appointed as an independent non-executive Director on 13 May 2018. He is also a member of the audit committee, remuneration committee and nomination committee of our Company. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Lau has over 10 years of experience in the legal industry. He was admitted as a solicitor in Hong Kong in August 2008. He joined Tsang, Chan & Woo Solicitors & Notaries as a trainee solicitor in March 2007, became an assistant solicitor from August 2008 to November 2013 and has been a partner since December 2013. Mr. Lau graduated from City University of Hong Kong with a Bachelor of Laws degree on 8 November 2005 and obtained Postgraduate Certificate in Laws also from City University of Hong Kong on 14 July 2006.

Save as disclosed above, none of our Directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. Please refer to the section headed “Statutory and general information” in Appendix V to this prospectus for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed herein, there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matters relating to our Directors that need to be brought to the attention of our shareholders.

### Senior Management

**Mr. LAM Tak Keung (林德強)**, aged 53, is our project manager and he is responsible for overall management of site works including quality control and safety supervision. Mr. Lam joined our Group in August 2012. He has over five years of experience in the construction industry in Hong Kong.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Kyaw Sai Hong (左世康)**, aged 36, is the financial controller and company secretary of our Company. He joined our Group in February 2017 as the financial controller of HCC Foundations and was appointed as the financial controller and company secretary of our Company on 2 June 2017. Mr. Kyaw has over 13 years of experience in the fields of accounting and auditing including experience with financial matters of listed companies. From November 2004 to January 2006, he was employed by a local auditing firm with his last position as an audit intermediate. From February 2006 to November 2006, he was employed by BDO Limited (then known as BDO McCabe Lo Limited) with his last position as an associate in the audit department. In November 2006, he was employed by Grant Thornton as a semi-senior in the Assurance Division and transferred to BDO Limited due to a merger of business between Grant Thornton and BDO Limited. Mr. Kyaw resigned from BDO Limited in July 2011 with his last position as a manager. From December 2011 to March 2013, he was employed by Shinewing (HK) CPA Limited as an audit manager. From May 2013 to April 2016, he was employed by Kwang Sung Technology Holdings Co. Limited as an accounting manager. From June 2016 to January 2017, he was employed by HF Management (HK) Limited as a financial controller. Mr. Kyaw is currently providing audit services and practicing under his own name as Roy Kyaw Certified Public Accountant (Practising).

Mr. Kyaw obtained a Bachelor of Arts degree in Accounting and Finance from Leeds Beckett University (formerly named as Leeds Metropolitan University) in July 2004. Mr. Kyaw is currently a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants and has been a member of Hong Kong Institute of Certified Public Accountants since January 2009.

None of our senior management holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus.

### COMPANY SECRETARY

**Mr. Kyaw Sai Hong (左世康)**, aged 36, is our financial controller and company secretary. He was appointed as the financial controller and company secretary of our Company on 2 June 2017. Please refer to the sub-paragraph headed “Senior management” in this section for his biography.

### CORPORATE GOVERNANCE

Upon Listing, Company will comply with the Corporate Governance Code in Appendix 14 to the Listing Rules (the “Code”) with the exception of code provision A.2.1 of the Code, which requires the roles of chairman and chief executive be different individuals. Our Directors will review our corporate governance policies and compliance with the Code each financial year and include our corporate governance report in our annual reports upon Listing. The terms of reference for performing the corporate governance functions in compliance with the Code were approved by our Board for adoption on 14 May 2018.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### **Separation of the roles of chairman and chief executive officer**

Pursuant to code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, Mr. Chan is both the chairman of our Board and the chief executive officer of our Company. In view of Mr. Chan's role in the day-to-day management and operations of the Group, being the founder of our Group and as one of the directors if not the sole director of other members of our Group as at the Latest Practicable Date, our Board believes that it is in the best interests of our Group for Mr. Chan to take up the dual roles of chairman and chief executive officer. Therefore, our Board considers that the deviation from code provision A.2.1 of the Code is appropriate in such circumstance and that there are sufficient checks and balances in place.

Our board will continue to review and consider splitting the roles of chairman and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole. Our Directors are aware that we are expected to comply with the Code. Any deviation from the Code should be carefully considered and disclosed in the interim and annual report. Save as disclosed above, we will continue to comply with the Code to protect the best interests of our Shareholders upon and after Listing.

### **BOARD COMMITTEES**

#### **Audit Committee**

Our Company established the audit committee on 14 May 2018 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C.3.3 of the Corporate Governance Code. The primary duties of our audit committee include, among others, (a) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor; (b) reviewing our financial statements, our annual report and accounts and our half-year report and significant financial reporting judgements contained therein; and (c) reviewing our financial controls, internal control and risk management systems. Our audit committee comprises three independent non-executive Directors, namely Mr. Ho Chi Wai, Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho. Mr. Ho Chi Wai is the chairman of our audit committee.

#### **Nomination Committee**

Our Company established the nomination committee on 14 May 2018 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The primary duties of our nomination committee include, among others, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment and succession planning for our

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Directors. Our nomination committee comprises two independent non-executive Directors, namely Mr. Ho Chi Wai and Mr. Lau Leong Ho, and one executive Director, namely Mr. Chan. Mr. Chan is the chairman of our nomination committee.

### Remuneration Committee

Our Company established the remuneration committee on 14 May 2018 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B.1.2 of the Corporate Governance Code. The primary duties of our remuneration committee, under the principle that no Director or any of his associates should be involved in deciding his own remuneration include, among others, making recommendations to our Board on (a) our remuneration policy and structure for all of our Directors and senior management; (b) the establishment of a formal and transparent procedure for developing remuneration policies; (c) the remuneration packages of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments; and (d) the remuneration of our non-executive Directors. Our remuneration committee comprises two independent non-executive Directors, namely Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho, and one executive Director, namely Mr. Sin Ka Pong. Mr. Cheung Kwok Yan Wilfred is the chairman of our remuneration committee.

### COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, our Company will appoint Dakin Capital Limited as our compliance adviser, who will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 3A.23 of the Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated by our Company, including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company concerning unusual movements in the price or trading volume of the Shares under Rule 13.10 of the Listing Rules.

The term of appointment shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of fixed monthly salaries in accordance with their respective employment contracts with our Group. Our Group also reimburses them for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the business operations.

The remuneration policies of our Group is and will be formulated by our Board on the recommendations of the remuneration committee of our Company (comprising three independent non-executive Directors). During the Track Record Period, the remuneration of our Directors and our senior management was determined with reference to their respective experience, responsibilities with our Group and general market conditions. Discretionary bonus (if any) is linked to the performance of our Group and of individual Director or senior management. Our Company intends to continue its remuneration policies after the Listing, subject to the review by and the recommendations of the remuneration committee of our Company.

For the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the aggregate amount of remuneration paid or payable by our Group to our Directors was approximately nil, HK\$369,000, HK\$914,000 and HK\$761,000, respectively.

For the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the aggregate amount of remuneration paid or payable by our Group to our five highest paid individuals (excluding our Directors amongst the five highest paid individuals) was approximately HK\$2,837,000, HK\$3,212,000, HK\$3,047,000 and HK\$2,247,000, respectively.

Save as disclosed above, no other payments have been paid or are payable by our Group in respect of each of the three years ended 31 March 2017 and the eight months ended 30 November 2017 to our Directors or the five highest paid individuals of our Group.

It is estimated that, under the arrangements currently in force, the aggregate remuneration (excluding any discretionary bonus) payable by our Group to our Directors for the year ending 31 March 2019 will be approximately HK\$2,470,000.

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors as an inducement to join or upon joining our Group or as compensation for loss of office.

During the Track Record Period, none of our Directors waived or agreed to waive any remuneration.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **EMPLOYEES' REMUNERATION AND RETIREMENT BENEFIT SCHEMES**

For details of our employees' remuneration and retirement benefit schemes, please refer to the section headed "Business – Our employees" in this prospectus.

#### **Share Option Scheme**

Our Directors may also receive options to be granted under the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed "Other information – 1. Share Option Scheme" in Appendix V to this prospectus.



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## SHARE CAPITAL

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### SHARE CAPITAL OF OUR COMPANY

The following is a description of the authorised and issued share capital of our Company immediately before and following the completion of the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme):

<i>Authorised share capital</i>	<i>HK\$</i>
<u>4,000,000,000</u> Shares of par value HK\$0.01 each	<u>40,000,000</u>
<i>Shares issued and fully paid or credited as fully paid upon completion of the Share Offer and the Capitalisation Issue</i>	
10,000 Shares in issue as at the date of this prospectus	100
899,990,000 Shares to be issued pursuant to the Capitalisation Issue	8,999,900
<u>300,000,000</u> Shares to be issued pursuant to the Share Offer	<u>3,000,000</u>
<u>1,200,000,000</u> Total issued Shares	<u>12,000,000</u>

### ASSUMPTIONS

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto are made as described herein. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme, or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates given to our Directors to allot and issue or repurchase the Shares as referred to below.

### MINIMUM PUBLIC FLOAT

At least 25% of the total issued share capital of our Company must at all times be held by the public. The 300,000,000 Offer Shares represent not less than 25% of the issued share capital of our Company upon Listing.

### RANKING

The Offer Shares are ordinary shares and will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and will qualify in full for all dividends or other distributions declared, made or paid on Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.



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## SHARE CAPITAL

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### CAPITALISATION ISSUE

Pursuant to the written resolution of the then sole Shareholder passed on 14 May 2018, subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, the Capitalisation Issue was approved and our Directors are authorised to allot and issue a total of 899,990,000 Shares (or such number of Shares any one Director may determine), credited as fully paid at par, to the holder(s) of Shares on the register of members or the principal share register of our Company at the close of business on 14 May 2018 as nearly as possible in proportion to their then existing shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of Share) by way of capitalisation of the sum of HK\$8,999,900 (or any amount any one Director may determine) standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to the Capitalisation Issue shall rank *pari passu* in all respects with the existing issue Shares.

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the fulfilment or waiver (as applicable) of the conditions set out in the section headed “Structure and conditions of the Share Offer – Conditions of the Share Offer” of this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Share to be allotted and issued or dealt with subject to the requirement that the total number of Shares so allotted and issued or agreed conditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangement, or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by our Company, if any, pursuant to the general mandate to repurchase Shares referred to in the paragraph headed “General mandate to repurchase Shares” in this section below.

This general mandate to issue Shares does not cover Shares to be allotted, issued or dealt with under a rights issue or pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or in lieu of the whole or part of a dividend on our Shares or similar arrangement in accordance with the Articles.

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## SHARE CAPITAL

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This general mandate to issue Shares will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting;
- (b) the date by which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors.

For further details of this general mandate to issue Shares, please refer to the paragraph headed "Further information about our Company and its subsidiaries – 3. Resolutions in writing of the then sole Shareholder passed on 14 May 2018" in Appendix V to this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Conditional on the fulfilment or waiver (as applicable) of the conditions set out in the section headed "Structure and conditions of the Share Offer – Conditions of the Share Offer" of this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme).

This mandate to repurchase Shares only relates to repurchases made on the Stock Exchange, or any other exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the paragraph headed "Further information about our Company and its subsidiaries – 6. Repurchase of our own securities" in Appendix V to this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the date by which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors.

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## SHARE CAPITAL

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For further details of this general mandate to repurchase shares, please refer to the paragraph headed “Further information about our Company and its subsidiaries – 3. Resolutions in writing of the then sole Shareholder passed on 14 May 2018” in Appendix V to this prospectus.

### **THE SHARE OPTION SCHEME**

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Other information – 1. Share Option Scheme” in Appendix V 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**

The circumstances under which general meeting and class meeting of our Company are required under Cayman Islands law are provided in our Articles of Association and the Companies Law. For a summary, please refer to Appendix IV to this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, as at the date of submission of application for the Listing and immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Adjustment Options or any options that may be granted under the Share Option Scheme), the following persons/entities will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of our Company required to be kept under section 336 of the SFO, or who are/will be, directly or indirectly, to be 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 members of our Group:

Name	Capacity/Nature of interest	Number of Shares held/interested immediately after completion of the Share Offer and the Capitalisation Issue <i>(Note 1)</i>	Approximate percentage of interests in our Company immediately after completion of the Share Offer and the Capitalisation Issue
Oriental Castle	Beneficial owner <i>(Note 3)</i>	900,000,000	75%
Mr. Chan	Interest in a controlled corporation <i>(Note 2)</i>	900,000,000	75%
Ms. Chu	Interest of a spouse <i>(Note 2)</i>	900,000,000	75%

*Notes:*

1. All interests stated are long positions.
2. Oriental Castle is beneficially owned as to 90% by Mr. Chan and 10% by Ms. Chu. By virtue of the SFO, Mr. Chan is deemed to be interested in all the Shares held by Oriental Castle. Ms. Chu is the spouse of Mr. Chan. Accordingly, Ms. Chu is deemed or taken to be interested in the Shares Mr. Chan is interested in under the SFO.
3. Oriental Castle is the direct Shareholder of our Company.

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## SUBSTANTIAL SHAREHOLDERS

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Save as disclosed above, our Directors are not aware of any person who will, as at the date of the submission of application for the listing and immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Adjustment Options or any options that may be granted under the Share Option Scheme), has an interest or short position in the Shares or the 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, directly or indirectly, be 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 member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our Group's financial position and results of operation together with our combined financial information as at 31 March 2015, 2016, 2017 and 30 November 2017, and for each of the three years ended 31 March 2017 and for the eight months ended 30 November 2017, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRSs. Prospective investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.*

### OVERVIEW

We are a subcontractor engaged in the provision of services with respect to foundation works in Hong Kong. Our services involve ELS works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks and structural steelworks. During the Track Record Period and up to the Latest Practicable Date, we had completed 38 projects in both private sector (including projects where the ultimate employer(s) are property developer(s) and land owner(s)) and public sector (including projects where the ultimate employer(s) are Government departments and statutory bodies). As at the Latest Practicable Date, we had 32 projects on hand (including projects in progress as well as projects awarded to us but not yet commenced) with a total awarded original contract sum of approximately HK\$1,037.3 million, of which approximately HK\$474.1 million has been recognised during the Track Record Period, and approximately HK\$399.3 million and approximately HK\$72.3 million are expected to be recognised as revenue during the year ending 31 March 2019 and 31 March 2020, respectively.

During each of the three years ended 31 March 2017 ("FY2015", "FY2016" and "FY2017", respectively) and the eight months ended 30 November 2017, our Group recorded total revenue of approximately HK\$259.4 million, HK\$502.1 million, HK\$396.9 million and HK\$206.1 million, respectively. During the same period, the profit and total comprehensive income of our Group was approximately HK\$17.8 million, HK\$22.2 million, HK\$25.8 million and HK\$8.0 million, respectively. Our relatively low profit and other comprehensive income of approximately HK\$8.0 million for the eight months ended 30 November 2017 was primarily attributable to the recognition of Listing expenses of approximately HK\$7.6 million. Excluding the impact of Listing expenses, our Group would have approximately HK\$15.6 million of profit and total comprehensive income for the eight months ended 30 November 2017.

For further information about our business and operation, please refer to the section headed "Business" of this prospectus.

### BASIS OF PREPARATION OF FINANCIAL INFORMATION

The financial information of our Group has been prepared by our Directors based on the accounting policies which conform with the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. The basis of presentation and preparation is set out in note 1.3 and note 2.1, respectively, of the Accountants' Report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### FACTORS AFFECTING THE FINANCIAL POSITION AND RESULTS OF OPERATION

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

**(i) Our foundation projects are non-recurrent in nature**

Our Group is principally engaged in the provision of services in the foundation industry in Hong Kong focusing on the provision of ELS works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks, and structural steelworks. Our services are provided on a project-by-project and non-recurring basis, thus we do not have any long term commitments with our customers and the number of our customers may vary from year to year. As at the Latest Practicable Date, we had 32 projects on hand (including projects in progress as well as projects that awarded to us but not yet commenced). Upon completion of these on-going contracts, in the event that our Group is unable to secure new contracts or has not commenced work for any of our new contracts, our revenue and financial performance may be adversely affected. Therefore, our future growth and success depends on our ability to continue securing tenders and contract awards. If our customers do not provide us with new businesses after completion of current projects or if we are not able to seek for new customers, our future revenue and profit would be adversely affected.

**(ii) Market conditions and trends in the construction industry and in the overall economy will affect our performance**

We derived all of our revenue from our services with respect to foundation works in Hong Kong during the Track Record Period. The market demand for our services depends on the market conditions and trends in the construction industry and in the overall economy. The continued availability of large construction projects, and the nature, extent and timing of such projects will be determined by a variety of factors such as the land supply in Hong Kong, public housing policy, political filibustering, the Government’s budgets, the investment of property developers and the general conditions and prospects of Hong Kong’s economy. If the overall value and number of construction projects in Hong Kong decrease, the demand for our services may reduce and our operation and profitability may be adversely affected.

**(iii) Fluctuations in contract costs**

The foundation projects undertaken by us are awarded by way of tender from our customers. We need to estimate, among other things, the work time and costs in order to determine the quotation price. The main components of our estimated project costs are material costs, staff costs and subcontracting charges. We purchase materials from our suppliers, such as ready-mix concrete, steel product which are in turn dependent on the prices of the underlying commodities such as portland cement and steel reinforcement. In addition, we also engage subcontractors to carry out the site works delegated by us. There

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## FINANCIAL INFORMATION

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may be fluctuations in the contract costs during the actual implementation of the project. In the event that the contract costs increase unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensation, the financial performance and profitability of our Group will be adversely affected.

Please refer to the paragraph headed “Principal Components of Results of Operation – Direct costs” below for information regarding the sensitivity analyses on main components of our project costs.

### **(iv) Timing and collectability of our retention money**

We normally receive progress payments certification from our customers on a monthly basis with reference to the work performed, and subsequently receive payments from our customers. A portion of the contract value (which is generally subject to a maximum of 5.0% of the total original contract value) is usually withheld by our customers as retention money. Half of the retention money is usually released to us upon completion of work and the remaining half is released to us after six months or 12 months after the completion of works depending on the terms of the contract between our Group and our customers. As at 31 March 2015, 2016, 2017 and 30 November 2017, the amount of retention receivables of our Group were approximately HK\$22.1 million, HK\$25.7 million, HK\$18.9 million and HK\$25.0 million, respectively. There is no assurance that the retention money or any future retention money will be released to us by our customers on a timely basis. Any late payment, whether arising from payment practice of our customer or delay in completion of the construction project, may adversely affect our future liquidity position.

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

Our Group’s significant accounting policies, which are relevant for the discussion and analysis of our financial position and results of operation as included in this prospectus, are set forth in details in note 2 to the Accountants’ Report set out in Appendix I to this prospectus. Significant accounting estimates are those that are most important to the portrayal of our Group’s results of operation and financial position and require management to exercise its judgement in the process of applying our Group’s accounting policies, which are set forth in details in note 4 to the Accountants’ Report set out in Appendix I to this prospectus. The assumptions and estimates are made based on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. We believe the following significant accounting policies involve the most significant estimates and judgments used in the preparation of our Group’s financial information.



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## FINANCIAL INFORMATION

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### **Significant accounting policies**

We have identified certain accounting policies that we believe are most significant to the preparation of our combined financial information. Some of our significant accounting policies involve subjective assumption and estimates, as well as complex judgments by our management relating to accounting items. Our significant accounting policies are set forth in detail in note 2 of the Accountants' Report in Appendix I to this prospectus.

### ***Revenue recognition***

Please refer to note 2.13 of the Accountants' Report in Appendix I to this prospectus.

### ***Construction contracts***

Please refer to note 2.7 of the Accountants' Report in Appendix I to this prospectus.

### ***Other significant accounting policies and estimates***

For other significant accounting policies and estimates, which were applied in the preparation of our Group's combined financial information, in relation to the property, plant and equipment, financial assets and impairment of non-financial assets, please refer to note 2.4, note 2.5 and note 2.6, respectively, to the Accountants' Report set out in Appendix I to this prospectus.

### **KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future, and key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out in note 4 to the Accountants' Report contained in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### SUMMARY OF RESULTS OF OPERATION

The following combined statements of profit or loss and other comprehensive income of our Group for the Track Record Period is extracted from, and should be read in conjunction with, the combined statements of profit or loss and other comprehensive income, together with the accompanying notes, in the Accountants' Report set forth in Appendix I to this prospectus.

	For the year ended 31 March			For the eight months ended 30 November	
	2015	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Revenue	259,403	502,053	396,880	201,402	206,115
Direct costs	(232,619)	(472,922)	(356,375)	(181,833)	(181,577)
Gross profit	26,784	29,131	40,505	19,569	24,538
Other income	1,083	5,692	4,224	4,168	4,281
Administrative expenses	(5,709)	(7,254)	(12,070)	(5,695)	(17,177)
Finance costs	(794)	(1,003)	(1,209)	(754)	(507)
Profit before income tax	21,364	26,566	31,450	17,288	11,135
Income tax expense	(3,527)	(4,366)	(5,625)	(2,860)	(3,112)
Profit and total comprehensive income for the year/period	<u>17,837</u>	<u>22,200</u>	<u>25,825</u>	<u>14,428</u>	<u>8,023</u>

### PRINCIPAL COMPONENTS OF RESULTS OF OPERATION

During the Track Record Period, our Group recorded revenue of approximately HK\$259.4 million, HK\$502.1 million, HK\$396.9 million and HK\$206.1 million, respectively; and for the same periods, our Group recorded profit and total comprehensive income of approximately HK\$17.8 million, HK\$22.2 million, HK\$25.8 million and HK\$8.0 million, respectively.

The following discussion is based on our historical results of operation and may not be indicative of our future operating performance.

### REVENUE

We were involved in a total of 70 foundation projects, of which 38 projects were completed and 32 projects were projects in progress and projects awarded to us but not yet commenced during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, our Group engaged in foundation projects from both public and private sectors. The

## FINANCIAL INFORMATION

ultimate employers of our projects in private sector are mainly property developer(s) and land owner(s) while the ultimate employers of our projects in public sector are mainly departments of the Government and statutory bodies. The following table sets forth our revenue generated from private and public sector projects during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Private sector projects	195,564	75.4	446,044	88.8	287,935	72.5	124,243	61.7	67,578	32.8
Public sector projects	63,839	24.6	56,009	11.2	108,945	27.5	77,159	38.3	138,537	67.2
	<u>259,403</u>	<u>100.0</u>	<u>502,053</u>	<u>100.0</u>	<u>396,880</u>	<u>100.0</u>	<u>201,402</u>	<u>100.0</u>	<u>206,115</u>	<u>100.0</u>

As shown in the table above, our revenue generated from private sector projects represented approximately 75.4%, 88.8%, 72.5% and 32.8% of our Group's total revenue during the Track Record Period, respectively; whilst revenue generated from public sector projects represented approximately 24.6%, 11.2%, 27.5% and 67.2% of our Group's total revenue during the Track Record Period, respectively. Our revenue mix for the eight months ended 30 November 2017 was affected by the increase in our revenue generated from the public sector projects. During the eight months period ended 30 November 2017, our two sizeable public sector projects, namely Project 43 and Project 60, generated revenue of approximately HK\$82.1 million represented approximately 39.8% of our total revenue.

The following table sets out our revenue derived from foundation projects at different completion stages during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Revenue derived from projects brought forward	103,912	40.1	447,571	89.1	126,044	31.8	97,538	48.4	91,546	44.4
Revenue from new projects commenced	155,491	59.9	54,482	10.9	270,836	68.2	103,864	51.6	114,569	55.6
Total	<u>259,403</u>	<u>100.0</u>	<u>502,053</u>	<u>100.0</u>	<u>396,880</u>	<u>100.0</u>	<u>201,402</u>	<u>100.0</u>	<u>206,115</u>	<u>100.0</u>

## FINANCIAL INFORMATION

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, there were 33, 25, 31 and 33 projects contributing approximately HK\$259.4 million, HK\$502.1 million, HK\$396.9 million and HK\$206.1 million, respectively, to our revenue. Set out below is the breakdown of such projects based on their respective revenue recognised during the Track Record Period:

	For the year ended 31 March			For the eight months ended 30 November	
	2015	2016	2017	2016	2017
	<i>Number of project(s)</i>	<i>Number of project(s)</i>	<i>Number of project(s)</i>	<i>Number of project(s)</i>	<i>Number of project(s)</i>
<b>Revenue recognised</b>					
HK\$100,000,000 or above	–	1	1	–	–
HK\$50,000,000 to below					
HK\$100,000,000	1	2	–	–	1
HK\$10,000,000 to below					
HK\$50,000,000	7	5	10	7	5
HK\$1,000,000 to below					
HK\$10,000,000	18	12	13	11	17
Below HK\$1,000,000	7	5	7	8	10
	<u>33</u>	<u>25</u>	<u>31</u>	<u>26</u>	<u>33</u>

The following table sets forth the list of 38 projects completed by our Group during the Track Record Period and up to the Latest Practicable Date:

Project Number	Sector	For the year ended 31 March			For the eight months ended 30 November		Total revenue recognised during the Track Record Period
		2015	2016	2017	2016	2017	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(a)	(b)	(c)	(Unaudited)	(d)	(a)+(b)+(c)+(d)
1	Private	7,241	3,648	–	–	–	10,889
2	Private	2,538	2,287	360	331	–	5,185
3	Private	1,392	13	–	–	–	1,405
4	Private	491	169	–	–	–	660
5	Private	180	–	–	–	–	180
6	Private	2,488	461	–	–	–	2,949
7	Public	9,951	10,634	4,112	3,648	1,912	26,609
8	Private	404	–	–	–	–	404
9	Public	2,880	–	–	–	1,575	4,455

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Project Number	Sector	For the year ended 31 March			For the eight months ended 30 November		Total revenue recognised during the Track Record Period
		2015 HK\$'000 (a)	2016 HK\$'000 (b)	2017 HK\$'000 (c)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (d)	HK\$'000 (a)+(b)+(c)+(d)
10	Private	850	–	–	–	–	850
11	Private	1,011	–	–	–	–	1,011
12	Private	618	106	–	–	–	724
13	Private	2,509	–	279	279	–	2,788
14	Public	1,656	–	–	–	–	1,656
15	Private	6,856	6,504	–	–	–	13,360
16	Private	60,153	55,023	–	–	–	115,176
17	Private	46,383	2,212	–	–	806	49,401
18	Public	4,538	1,809	4,786	3,418	–	11,133
19	Private	4,914	2,419	–	–	–	7,333
20	Public	1,778	–	–	–	–	1,778
22	Public	2,374	–	–	–	–	2,374
23	Public	2,255	–	–	–	–	2,255
24	Private	11,916	326	813	122	605	13,660
25	Private	10,790	–	–	–	823	11,613
28	Public	2,117	–	–	–	2	2,119
29	Private	825	–	–	–	–	825
30	Private	10,474	87,110	27,404	18,320	24	125,012
31	Private	10,261	16,894	21	21	210	27,386
33	Private	5,820	214,145	7,513	7,513	–	227,478
35	Private	–	3,228	–	–	–	3,228
47	Private	–	–	103,081	43,500	–	103,081
48	Private	–	–	15,807	9,604	–	15,807
49	Private	–	–	31,122	–	–	31,122
50	Private	–	–	15,750	–	–	15,750
51	Public	–	–	16,350	10,840	–	16,350
52	Private	–	–	20,706	5,460	1,790	22,496
53	Public	–	1,221	–	–	–	1,221
56	Private	–	–	–	–	10,584	10,584
Sub-total		215,663	408,209	248,104	103,056	18,331	890,307

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The following table sets forth the list of 32 projects on hand (including projects in progress as well as projects that awarded to us but not yet commenced) as at the Latest Practicable Date:

Project Number	Sector	For the year ended 31 March			For the eight months ended 30 November		Total revenue recognised during the Track Record Period	Status as at the Latest Practicable Date
		2015 HK\$'000 (a)	2016 HK\$'000 (b)	2017 HK\$'000 (c)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (d)	(a)+(b)+(c)+(d)	
21	Private	7,451	9,141	4,553	3,021	-	21,145	In progress
26	Public	23,215	10,902	5,249	3,055	4,231	43,597	In progress
27	Public	12,418	21,955	168	168	-	34,541	In progress
32	Public	656	1,814	2,642	2,239	-	5,112	In progress
34	Private	-	37,677	7,081	4,923	746	45,504	In progress
36	Public	-	7,674	27,713	20,961	22,946	58,333	In progress
37	Private	-	4,681	33,348	29,518	-	38,029	In progress
38	Public	-	-	1,908	1,621	989	2,897	In progress
39	Public	-	-	20,481	18,151	6,165	26,646	In progress
40	Public	-	-	17,038	11,674	1,522	18,560	In progress
41	Private	-	-	1,173	-	4,947	6,120	In progress
42	Private	-	-	1,988	632	433	2,421	In progress
43	Public	-	-	8,499	1,383	21,945	30,444	In progress
44	Private	-	-	6,134	963	-	6,134	In progress
45	Private	-	-	991	-	329	1,320	In progress
46	Private	-	-	9,732	37	7,475	17,207	In progress
54	Private	-	-	-	-	1,619	1,619	In progress
55	Private	-	-	78	-	12,072	12,150	In progress
57	Public	-	-	-	-	3,485	3,485	In progress
58	Public	-	-	-	-	2,394	2,394	In progress
59	Public	-	-	-	-	11,237	11,237	In progress
60	Public	-	-	-	-	60,135	60,135	In progress
61	Private	-	-	-	-	6,573	6,573	In progress
62	Private	-	-	-	-	2,614	2,614	In progress
63	Private	-	-	-	-	6,279	6,279	In progress
64	Private	-	-	-	-	4,662	4,662	In progress
65	Private	-	-	-	-	-	-	In progress
66	Private	-	-	-	-	1,052	1,052	In progress
67	Private	-	-	-	-	3,934	3,934	In progress
68	Public	-	-	-	-	-	-	In progress
69	Private	-	-	-	-	-	-	In progress
70	Private	-	-	-	-	-	-	In progress
Sub-total		43,740	93,844	148,776	98,346	187,784	474,144	
Total revenue		259,403	502,053	396,880	201,402	206,115	1,364,451	

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Our Group completed 38 projects during the Track Record Period and up to Latest Practicable Date. As at the Latest Practicable Date, our Group has 32 projects on hand (including projects in progress as well as projects that awarded to us but not yet commenced). These 32 projects on hand had an aggregate original contract sum of approximately HK\$1,037.3 million of which approximately HK\$474.1 million has been recognised during the Track Record Period, and approximately HK\$399.3 million is expected to be recognised as revenue during the year ending 31 March 2019. For further details of our contracts on hand, please refer to the paragraph headed “Business – Our Projects” in this prospectus.

### DIRECT COSTS

Our Group’s direct costs consist of material costs, staff costs, subcontracting charges, transportation expenses, depreciation expenses and other direct costs. The following table sets forth a breakdown of our direct costs during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Material costs	83,624	35.9	232,417	49.1	154,797	43.4	76,826	42.3	95,656	52.7
Staff costs	76,172	32.7	112,546	23.8	64,074	18.0	42,154	23.2	37,697	20.8
Subcontracting charges	18,622	8.0	53,119	11.2	75,271	21.1	36,223	19.9	21,899	12.0
Transportation expenses	24,044	10.3	37,269	7.9	32,165	9.0	15,271	8.4	12,428	6.8
Depreciation expenses	9,838	4.2	9,189	1.9	8,554	2.4	5,645	3.1	4,884	2.7
Other direct costs	20,319	8.7	28,382	6.0	21,514	6.0	5,714	3.1	9,013	5.0
<b>Total</b>	<b>232,619</b>	<b>100.0</b>	<b>472,922</b>	<b>100.0</b>	<b>356,375</b>	<b>100.0</b>	<b>181,833</b>	<b>100.0</b>	<b>181,577</b>	<b>100.0</b>

Our most significant direct costs are material costs, staff costs and subcontracting charges. Our material costs mainly represent direct costs for purchase of construction materials, such as ready-mix concrete and steel product, that are directly attributed to our works, while our staff costs represent the labour cost (including directors’ remuneration) directly incurred for the provision of our foundation works. During the Track Record Period, the material costs accounted for approximately 35.9%, 49.1%, 43.4% and 52.7% of our total direct costs, respectively; and during the same period, the staff costs accounted for approximately 32.7%, 23.8%, 18.0% and 20.8% of our total direct costs, respectively.

Our Group engages subcontractors mainly for our specific parts of a project, such as rebar fixing, drainage works and formworks. Subcontracting charges amounted to approximately HK\$18.6 million, HK\$53.1 million, HK\$75.3 million and HK\$21.9 million, representing approximately 8.0%, 11.2%, 21.1% and 12.0% of our direct costs for each of the three years ended 31 March 2015, 2016 and 2017 and the eight months ended 30 November 2017, respectively. Our increasing subcontracting charges from approximately HK\$53.1 million in

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FY2016 to approximately HK\$75.3 million in FY2017 was mainly due to our Project 51 as we subcontracted out substantially all works and acted only in a project management and supervision role, resulting in a higher subcontracting charges whilst a decrease in our revenue in FY2017.

During the Track Record Period, the aggregate amount of material costs, staff costs, and subcontracting charges accounted for approximately 76.6%, 84.1%, 82.5% and 85.5% of our total direct costs, respectively. Fluctuations in material costs and staff costs and our ability to include appropriate cost estimates in tendering process or preparation of quotations and to pass on any cost escalations to our customers will affect our profitability. Our Directors confirm that the proportion of material costs, staff costs and subcontracting charges in our total direct costs depends on, among other factors, the nature, design, and requirements of our projects which vary from project to project.

The following sensitivity analysis illustrates the impact of hypothetical fluctuation in material costs, staff costs and subcontracting charges on our profit before tax during the Track Record Period, assuming all other variables remained constant. According to CIC Report, the average hourly wage for construction workers, price of steel reinforcement and price of portland cement recorded a CAGR during the period between 2010 and 2017 of approximately 13.1%, 2.6% and 1.6%, respectively. For prudence sake, our Group adopted a hypothetical fluctuation of 2.0% and 14.0% in performing the sensitivity analysis below:

### Sensitivity analysis on our material costs

Hypothetical fluctuation (% change in material costs)	-14.0%	-2.0%	+2.0%	+14.0%
<b>Change in profit before tax (HK\$'000)</b>				
For the year ended 31 March 2015	11,707.4	1,672.5	(1,672.5)	(11,707.4)
For the year ended 31 March 2016	32,538.4	4,648.3	(4,648.3)	(32,538.4)
For the year ended 31 March 2017	21,671.6	3,095.9	(3,095.9)	(21,671.6)
For the eight months ended 30 November 2016	10,755.6	1,536.5	(1,536.5)	(10,755.6)
For the eight months ended 30 November 2017	13,391.8	1,913.1	(1,913.1)	(13,391.8)

### Sensitivity analysis on our staff costs

Hypothetical fluctuation (% change in staff costs)	-14.0%	-2.0%	+2.0%	+14.0%
<b>Change in profit before tax (HK\$'000)</b>				
For the year ended 31 March 2015	10,664.1	1,523.4	(1,523.4)	(10,664.1)
For the year ended 31 March 2016	15,756.4	2,250.9	(2,250.9)	(15,756.4)
For the year ended 31 March 2017	8,970.4	1,281.5	(1,281.5)	(8,970.4)
For the eight months ended 30 November 2016	5,901.6	843.1	(843.1)	(5,901.6)
For the eight months ended 30 November 2017	5,277.6	753.9	(753.9)	(5,277.6)



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### Sensitivity analysis on our subcontracting charges

#### Hypothetical fluctuation

(% change in subcontracting charges)	-14.0%	-2.0%	+2.0%	+14.0%
<b>Change in profit before tax (HK\$'000)</b>				
For the year ended 31 March 2015	2,607.1	372.4	(372.4)	(2,607.1)
For the year ended 31 March 2016	7,436.7	1,062.4	(1,062.4)	(7,436.7)
For the year ended 31 March 2017	10,537.9	1,505.4	(1,505.4)	(10,537.9)
For the eight months ended 30 November 2016	5,071.2	724.5	(724.5)	(5,071.2)
For the eight months ended 30 November 2017	3,065.9	438.0	(438.0)	(3,065.9)

*Note:* The sensitivity analysis above assumes that only one variable changes while other variables remain unchanged. This sensitivity analysis is intended for reference only, and any variation may differ from the amounts indicated. Investors should note in particular that this sensitivity analysis is not intended to be exhaustive and is limited to the impact of changes in the costs of wood and wages respectively and does not reflect changes in our revenue.

### GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit was approximately HK\$26.8 million, HK\$29.1 million, HK\$40.5 million and HK\$24.5 million for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively. The following table sets forth our gross profit and gross profit margin for the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Foundation works contracts	<u>26,784</u>	10.3	<u>29,131</u>	5.8	<u>40,505</u>	10.2	<u>19,569</u>	9.7	<u>24,538</u>	11.9

(Unaudited)

During the Track Record Period, our gross profit margin varied from project to project. Our gross profit and gross profit margin are dependent on various factors, including (i) the nature and complexity of projects that were undertaken by our Group; and (ii) the progress of such projects during the relevant financial year. As such, our gross profit margin achieved in a financial year is not an accurate indicator of our gross profit margin that may be achieved in a subsequent financial year.

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The following table sets forth breakdown of our gross profit and gross profit margin by customer segments during the Track Record Period:

	For the year ended 31 March						For the eight months ended 30 November			
	2015		2016		2017		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Private sector	20,781	10.6	23,840	5.3	29,039	10.1	11,575	9.3	8,693	12.9
Public sector	<u>6,003</u>	9.4	<u>5,291</u>	9.4	<u>11,466</u>	10.5	<u>7,994</u>	10.4	<u>15,845</u>	11.4
Total	<u>26,784</u>	10.3	<u>29,131</u>	5.8	<u>40,505</u>	10.2	<u>19,569</u>	9.7	<u>24,538</u>	11.9

(Unaudited)

During the Track Record Period, our gross profit margin contributed by contracts from private sector's customers was approximately 10.6%, 5.3%, 10.1% and 12.9%, respectively; while our gross profit margin contributed by contracts from public sector's customers was approximately 9.4%, 9.4%, 10.5% and 11.4%, respectively. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any loss-making project.

Our gross profit margin contributed by contracts from private sector's customers decreased from approximately 10.6% for the year ended 31 March 2015 to approximately 5.3% for the year ended 31 March 2016 and increased to approximately 10.1% for the year ended 31 March 2017. The decrease of gross profit margin contributed by contracts from private sector's customers for the year ended 31 March 2016 as compared with that for the year ended 31 March 2015 were primarily due to our sizable project, Project 33, which had a relatively low gross profit margin of approximately 3.8% for the year ended 31 March 2016. For further details, please refer to "Financial information – Period to period comparison of results of operation" in this prospectus.

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### OTHER INCOME

Our other income primarily consisted of (i) gain on disposal of property, plant and equipment; (ii) machinery rental income; and (iii) sundry income. The following table sets forth a breakdown of other income of our Group during the Track Record Period:

	For the year ended 31 March			For the eight months ended 30 November	
	2015	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Gain on disposal of property, plant and equipment	369	4,436	3,551	3,700	1,807
Machinery rental income	473	1,055	388	270	2,406
Sundry income	241	201	285	198	68
	<u>1,083</u>	<u>5,692</u>	<u>4,224</u>	<u>4,168</u>	<u>4,281</u>
Total	<u>1,083</u>	<u>5,692</u>	<u>4,224</u>	<u>4,168</u>	<u>4,281</u>

### ADMINISTRATIVE EXPENSES

Administrative expenses mainly include staff costs, depreciation expenses, consultant fees, rental expenses, insurance expenses, travelling expenses, Listing expenses and other administrative expenses. The following table sets out a breakdown of our administrative expenses for the years indicated:

	For the year ended 31 March			For the eight months ended 30 November	
	2015	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Staff costs	1,596	1,914	3,446	1,706	4,993
Depreciation expenses	1,697	1,545	1,671	1,095	1,035
Consultant fees	418	686	1,056	342	370
Rental expenses	180	180	625	381	362
Insurance expenses	354	663	472	440	475
Travelling expenses	168	183	83	62	126
Listing expenses	–	–	2,713	–	7,614
Other administrative expenses	1,296	2,083	2,004	1,669	2,202
	<u>5,709</u>	<u>7,254</u>	<u>12,070</u>	<u>5,695</u>	<u>17,177</u>
Total	<u>5,709</u>	<u>7,254</u>	<u>12,070</u>	<u>5,695</u>	<u>17,177</u>

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Our administrative expenses amounted to approximately 2.2%, 1.4%, 3.0% and 8.3% of our total revenue for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively. Such increase in the percentage to our total revenue was mainly attributable to the Listing expenses incurred during the eight months period ended 30 November 2017. Our administrative expenses mainly include:

- (i) Staff costs comprised of salaries, bonus, contribution to defined contribution retirement plans and other benefits for our office staff;
- (ii) Depreciation expenses represented depreciation of property, plant and equipment not directly used in our projects;
- (iii) Consultant fees which is related to financial and administrative consultancy services provided by Ms. Chan Sze Nga and safety consultancy services;
- (iv) Rental expenses represented the leasing of our office premises in Hong Kong;
- (v) Insurance expenses represented costs incurred for maintaining insurance for our Group's employees who work at our office; and
- (vi) Other administrative expenses include office expenses and printing and stationery.

### FINANCE COSTS

Our finance costs mainly represent bank loans interest (wholly repayable within five years) and finance charge on obligations under finance leases as set out below.

	For the year ended 31 March			For the eight months ended 30 November	
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank loans interest (wholly repayable within five years)	243	402	537	266	223
Finance charge on obligations under finance leases	551	601	672	488	284
Total	<u>794</u>	<u>1,003</u>	<u>1,209</u>	<u>754</u>	<u>507</u>

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For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, our secured bank loans carried interest at floating rates ranging from 4.0% to 5.0%, 4.0% to 5.0%, 2.2% to 5.5% and 2.2% to 5.0% per annum, respectively.

For each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, the effective interest rate on our finance leases was ranging from 5.2% to 10.2%, 4.3% to 10.2%, 3.6% to 10.2% and 3.6% to 6.6% per annum, respectively.

### INCOME TAX EXPENSE

Our Group was not subject to any income tax in the Cayman Islands and the BVI during the Track Record Period. Our Group's revenue during the Track Record Period was derived in Hong Kong and, therefore, our Group was subject to profit tax in Hong Kong. The provision for Hong Kong profits tax is provided at the statutory profits tax rate of 16.5% of the relevant estimated assessable profits for the Track Record Period. The effective tax rates of our Group for each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017 were approximately 16.5%, 16.4%, 17.9% and 27.9%, respectively. During the eight months ended 30 November 2017, our effective tax rate significantly increased to approximately 28.0% was mainly due to our tax effect of non-deductible expenses incurred for the Listing.

### Tax payable

Our Group's tax payable as at 31 March 2015, 2016, 2017 and 30 November 2017 amounted to approximately HK\$3.7 million, HK\$5.4 million, HK\$3.0 million and HK\$4.8 million, respectively. Our income tax payment for the respective years amounted to approximately HK\$0.1 million, HK\$2.0 million, HK\$8.0 million and HK\$1.3 million, respectively. The principal circumstances leading to the significant increase in our Group's income tax payment from HK\$2.0 million in FY2016 to HK\$8.0 million in FY2017 was mainly caused by the method used for recognition of contract revenue of HCC Foundations' Original AFS (as defined below) for or before the years ended 31 March 2016. For more details for the revenue recognition method adopted, please refer to the below discussion.

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Set out below illustrates the reconciliation of movements of our Group's current income tax payable and income tax payment during the Track Record Period:

<i>(Approximately HK\$'000)</i>	For the year ended 31 March		For the eight months ended 30 November		<i>Notes</i>
	2015	2016	2017	2017	
Opening tax payable as at beginning of the year/period	228	3,709	5,443	2,967	
Tax provision for the year	3,630	3,688	5,556	3,078	
Tax paid during the year 2015	(149)	-	-	-	(i)
Tax paid during the year 2016	-	(1,954)	-	-	(ii)
Tax paid during the year 2017	-	-	(8,032)	-	(iii)
Tax paid during the eight months ended 30 November 2017	-	-	-	(1,267)	(iv)
Closing tax payable as at end of the year/period	<u>3,709</u>	<u>5,443</u>	<u>2,967</u>	<u>4,778</u>	

*Notes:*

- i. Our Group paid the tax relating to the performance of our Group's subsidiaries for the year ended 31 March 2014 ("FY2014") according to the statutory financial statements of the subsidiaries. During the year ended 31 March 2014, only minimal profit was recorded in a subsidiary while our Group recorded loss as a whole;
- ii. Our Group paid the tax relating to the performance of our Group's subsidiaries for the year ended 31 March 2015 after utilising the tax loss brought forward from the year ended 31 March 2014. However, difference between the tax provision and tax paid for the year ended 31 March 2015 was arising from the Tax Incident mentioned below, as a result tax underpaid was noted; and
- iii. Our Group paid the tax relating to the performance of our Group's subsidiaries for the year ended 31 March 2016. The tax paid constituted the tax for the two years ended 31 March 2015 and 2016 and the provisional tax for the year ended 31 March 2017.
- iv. Our Group paid the tax during the eight months ended 30 November 2017 relating to the performance of our Group's subsidiaries for year ended 31 March 2017.

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Set out below illustrates our Group's current income tax provision versus income tax payment during the Track Record Period:

<i>(Approximately HK\$'000)</i>	For the year ended 31 March			For the eight months ended 30 November
	2015	2016	2017	2017
Current income tax provision for the year/period	3,630	3,688	5,556	3,078
Tax paid related to the year/period	(1,062)	(5,046)	(5,066)	–
	2,568	(1,358)	490	3,078
Tax effects of tax loss set-off	(2,174)	–	–	–
Tax undercharged/(overprovided)	394	(1,358)	490	3,078
	<i>(Note a)</i>	<i>(Note a)</i>	<i>(Note b)</i>	<i>(Note c)</i>

*Notes:*

- (a) The tax provision is higher than the tax paid for approximately HK\$0.4 million in respect of year ended 31 March 2015 was mainly due to the Tax Incident as detailed below.

The tax provision is lower than the tax paid for approximately HK\$1.4 million in respect of year ended 31 March 2016 was mainly due to the Tax Incident as detailed below.

- (b) The tax provision is higher than the tax paid for approximately HK\$0.5 million in respect of year ended 31 March 2017 as at 30 November 2017. In December 2017, our Group has paid further approximately HK\$0.1 million to the IRD in respect of the year ended 31 March 2017. The remaining final tax payment in respect of financial year ended 31 March 2017 will be paid upon receipt of tax assessment from the IRD for the year of assessment 2016/17.
- (c) Our Group has paid approximately HK\$3.9 million to the IRD in respect of the provisional income tax for the year ended 31 March 2018 in December 2017.

HCC Foundations' Profits Tax Returns (the “Returns”) and/or the supporting tax computations were submitted to the Inland Revenue Department (the “IRD”) based on the respective audited financial statements (the “Original AFS”) prepared by the management of our Company and audited by the statutory auditors in accordance with Small and Medium-sized Entity Financial Reporting Standard (“SME-FRS”) or Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certificate Public Accountants.

Pursuant to the Hong Kong Accounting Standard (“HKAS”) 11, the stage of completion of a construction contract may be determined in a variety of ways, including:

- (1) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs (“Method 1”);

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- (2) surveys of work performed (“**Method 2**”); or
- (3) completion of a physical proportion of the contract work.

According to HCC Foundations’ Original AFS for or before the years ended 31 March 2016, the recognition of contract revenue was based on Method 1. Certifications of our Group’s works performed by the customers (or the customer’s agents) were not taken into account.

Subsequently, our Group has appointed a financial controller (the “**Financial Controller**”) who realised that it would be more reliable to recognise HCC Foundations’ contract revenue by adopting Method 2. During the course of construction projects, actual contract margin may deviate from the original contract margin (budgeted at the beginning of the contract) mainly caused by the subsequent contract events (the “**Subsequent Contract Events**”) during each of the reporting periods which resulted in overall higher actual contract margin. For instance, additional payment from customers due to project complexity (e.g. site with access difficulties).

For the purpose of preparation of our Group’s Accountants’ Report for the Track Record Period, the Directors have prepared and provided the Reporting Accountants the Underlying Financial Statements (the “**UFS**”) of our Group prepared in accordance with HKFRSs issued by the HKICPA, which comprising HCC Foundations by adopting Method 2.

The following table sets out the revenue, the gross profit, the profit before taxation and the net profit of HCC Foundations when adopting Method 1:

	<b>Revenue</b> <i>HK\$’000</i>	<b>Gross profit</b> <i>HK\$’000</i>	<b>Profit before taxation</b> <i>HK\$’000</i>	<b>Net profit</b> <i>HK\$’000</i>
FY2014	157,601	11,892	5,616	5,537
FY2015	200,613	13,401	5,481	4,519
FY2016	503,455	42,794	30,536	25,445

The following table sets out the revenue, the gross (loss)/profit, the (loss)/profit before taxation and the net (loss)/profit of HCC Foundations when adopting Method 2:

	<b>Revenue</b> <i>HK\$’000</i>	<b>Gross (loss)/profit</b> <i>HK\$’000</i>	<b>(Loss)/profit before taxation</b> <i>HK\$’000</i>	<b>Net (loss)/profit</b> <i>HK\$’000</i>
FY2014	167,292	(2,476)	(8,741)	(8,662)
FY2015	259,403	25,620	21,531	18,012
FY2016	502,053	27,898	22,301	18,684



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As such, the financial information for the Track Record Period between the Original AFS and the Accountants' Report were different, the difference in income tax expenses provision is set out below:

<i>(Approximately HK\$'000)</i>	<b>For the Year ended 31 March</b>	
	<b>2015</b>	<b>2016</b>
Tax undercharged/(overprovided)	<u>394</u>	<u>(1,358)</u>

Since the UFS was prepared by our Directors, Method 2 was consistently applied throughout the Track Record Period.

As a result of the above, our Group's tax payment (i.e. cash outflow based on Original AFS) during the Track Record Period was different from the current income tax payable as shown in the Accountants' Report (the "**Tax Incident**").

No prior year adjustment was noted and mentioned in the Original AFS. HCC Foundations' Original AFS were audited by the statutory auditors. The statutory auditors expressed an opinion that the Original AFS were properly prepared in accordance with the SME-FRS or HKFRSs and gave a true and fair view of the financial performance and positions of HCC Foundations for the years ended 31 March 2014, 2015 and 2016. The corresponding tax records were then filed and reported to the IRD.

For the purpose of preparation of the Accountants' Report, the Reporting Accountants solely audited the UFS. According to the Accountants' Report (i.e. the audited UFS), the financial information in the Accountants' Report gave a true and fair view of the financial position, financial performance and cash flows of our Group for the Track Record Period. According to the Reporting Accountants, the financial information in the Accountants' Report were prepared under HKFRSs during the Track Record Period, no adjustment has been made to the audited UFS.

Our Directors and the Reporting Accountants are of the view and the Sole Sponsor concurs that the financial information for the Track Record Period between the Original AFS and the Accountants' Report were different, the followings were carried out:

- (i) HCC Foundations has revised its statutory financial statements (with prior year adjustments) for the year ended 31 March 2016 (with restated comparative figures for the years ended 31 March 2014 and 2015) (the "**Revised AFS**");
- (ii) HCC Foundations has provided the Revised AFS and the revised tax computations (the "**Revised Tax Computation**") to the Reporting Accountants. The Reporting Accountants is of the view that no material differences were noted between the financial information for HCC Foundations stated in the Accountants' Report and the Revised AFS;

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- (iii) After the submission of the Revised Tax Computations to the IRD, the IRD has issued a letter to HCC Foundations on 7 July 2017 (the “**Letter**”) and opined that the use of another method in ascertaining the profits or losses is simply a change of opinion and does not mean that there is an “error” in ascertaining the assessable profits of HCC Foundations.
- (iv) Furthermore, the Sole Sponsor, together with the tax representative of HCC Foundations, had called and discussed with the Profit Tax Assessor of Inland Revenue Department (the “**Profit Tax Assessor**”) on 22 August 2017 in relation to the submission of the Revised Tax Computations, the Profit Tax Assessor verbally expressed the view that:
  - (a) there was no error in ascertaining the assessable profits of HCC Foundations and such error happened only after the use of another method in ascertaining the profits or losses of HCC Foundations by another financial controller of HCC Foundations, however both methods are accepted under the HKFRSs and clearly did not constitute an “error” under the Inland Revenue Ordinance;
  - (b) the cut off errors in the Letter were results of the use of another method in ascertaining the profits or losses of HCC Foundations only, it is not an error; and
  - (c) the IRD could not issue the revised notice of assessment for the years of assessment 2014/2015 of HCC Foundations even HCC Foundations submits the letter of profit tax year of assessment 2013/14 to 2016/17 of HCC Foundations to the IRD given the same reasons for requesting the revised financial statements to be adopted and filed into the IRD.

The Tax Incident would not affect the suitability of our Company’s listing under Rule 8.04 of the Listing Rules on the following grounds:

- (i) The Tax Incident did not cause the financial information disclosed in the prospectus of our Company to be inaccurate or misleading in a material respect. This is because no amendments were made in the Accountants’ Report and only HCC Foundations’ Original AFS was adjusted to conform with the Accountants’ Report which was audited by the Reporting Accountants.
- (ii) HCC Foundations has voluntarily made full disclosure to the IRD on the Tax Incident.
- (iii) The overall tax position of HCC Foundations in the IRD is tax overpayment rather than tax omission.
- (iv) The Profit Tax Assessor represented that the use of another method in ascertaining the profits or losses is simply a change of opinion and does not mean that there is an “error”.

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- (v) Our Group has implemented the following enhanced internal control measures to prevent the recurrence of similar tax incident:
- (a) Our Group has adopted written policies detailing the relevant accounting standards and procedures in respect of the recognition of contract revenue from construction contracts. Since February 2017, our Group has held regular meetings with the project managers to understand the stage of completion of each project for appropriate recognition of revenue and costs. The head of our Group's project team and finance team shall meet monthly to update the budgeted costs and revenue on a timely basis;
  - (b) Our Group's Financial Controller oversees the accounting department and monitors financial reporting procedures to ensure the adoption of proper accounting policies. Our Financial Controller reviews the monthly management accounts prepared by the accounting team and is involved in preparation of financial statements of our Group to ensure that they are prepared in accordance with the HKFRSs, which are then reviewed and approved by the board of Directors of our Company. Our Group continuously reviews and monitors the updates on the accounting standards and tax requirements from time to time in order to adopt the best practice in accounting;
  - (c) When necessary, our Company will arrange its accounting staff to attend training courses regarding taxation and accounting practice in Hong Kong organised by accounting professional to enhance our accounting knowledge and to ensure compliance with the accounting standards;
  - (d) Our Group has been engaging a tax representative to prepare the filing of tax return to the IRD annually;
  - (e) Our Financial Controller is responsible for reviewing the tax returns filed with the IRD, and if necessary, tax adviser would be consulted to ensure tax related laws and requirements are complied with; and
  - (f) The internal control adviser of our Company has further reviewed the above internal control policy and confirmed that no material internal control deficiency has been identified and is satisfied that the above internal control measures are adequate and effective to ensure ongoing compliance with the relevant financial reporting standards, the Inland Revenue Ordinance (Cap 112 of the laws of Hong Kong) and other relevant rules and regulations.

Last but not least, our Company has submitted the letter of profit tax for the years of assessment 2013/14 to 2016/17 together with the tax return for the year of assessment 2016/17 of HCC Foundations dated 1 September 2017 to the IRD for them to re-consider our Group's request and issue the revised notice of assessment for the year of assessment 2014/15.

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On 13 September 2017, the IRD issued the profits tax assessment demanding the final tax for 2016/17 and notice for payment of provisional tax for 2017/18 of HCC Foundations of approximately HK\$5.3 million which was assessed based on the audited financial statements prepared by using Method 2.

Subsequently, a meeting was held between the IRD, the tax representative of HCC Foundations, the accounting manager of our Group and the tax adviser of our Group (the “**Tax Adviser**”) on 29 September 2017, whereby the IRD stated, *inter alia*, that “*it had no objection to the submission of the revised audited financial statements by HCC Foundations of 2013/14, 2014/15, 2015/16 and 2016/17*” (the “**Conversation**”). By a letter dated 4 October 2017 from HCC Foundations to IRD, HCC Foundations has put the Conversation on record.

On 13 October 2017, the IRD issued a letter in response to the letter from HCC Foundations dated 4 October 2017, whereby the IRD stated, in essence, that, subject to further review of the IRD, if necessary, under section 60 of the Inland Revenue Ordinance (the “**IRO**”), the IRD confirmed that its previous assessment for the year of assessment 2014/15 issued on 7 December 2015 was final and conclusive.

Considering the above, our Directors and the Sole Sponsor have obtained the tax opinion from the Tax Adviser in respect of (i) the view from the IRD for the Accounting Differences pursuant to (a) the relevant accounting standards and (b) the relevant sections of IRO; (ii) the chance of potential challenge from the IRD in relation to the understating profit of our Group Companies for the years of assessment (where applicable) 2013/14, 2015/16 and 2016/17; and (iii) in case of challenge by the IRD, the potential liabilities that may be imposed on our Group Companies by the IRD.

The Tax Adviser opined that there is no error in the choice of Method 1 or Method 2 since both methods of calculation of profits in the business of HCC Foundations are acceptable under HKAS11. Since there is no error in the calculation of profits by HCC Foundations, there is unlikely to be an offence in the reporting of profits or submission of the tax returns by HCC Foundations in the past. Therefore, there is unlikely to be any penal actions taken by IRD against HCC Foundations and unlikely for the IRD to impose tax penalty on HCC Foundations.

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

#### Eight months ended 30 November 2017 compared to eight months ended 30 November 2016

##### *Revenue*

Our revenue increased by approximately HK\$4.7 million or 2.3% from approximately HK\$201.4 million for the eight months period ended 30 November 2016 to approximately HK\$206.1 million for the eight months period ended 30 November 2017. The aforesaid increase was mainly attributable to the combined effect of:

- (i) an increase in our revenue of approximately HK\$20.6 million from approximately HK\$1.4 million for the eight months period ended 30 November 2016 to approximately HK\$21.9 million for the eight months period ended 30 November 2017 for our sizable public sector project, namely Project 43, which commenced in FY2017 and was in full swing during the eight months period ended 30 November 2017;
- (ii) an increase in our revenue of approximately HK\$114.7 million for the eight months period ended 30 November 2017 derived from 12 new projects during this period;
- (iii) a decrease in our revenue of approximately HK\$106.0 million for the eight months period ended 30 November 2017 as a result of the completion of 9 projects in FY2017; and
- (iv) as illustrated below, we recorded an increase in the number of projects handled and we recorded an increase in number of relatively larger scale and higher income project, namely Project 60, which contributed approximately HK\$60.1 million revenue in the eight months period ended 30 November 2017 and nil in the eight months period ended 30 November 2016.

	<b>For the eight months ended 30 November</b>	
	<b>2016</b>	<b>2017</b>
	<i>Number of projects</i>	<i>Number of projects</i>
<b>Revenue recognised</b>		
HK\$50,000,000 to below HK\$100,000,000	–	1
HK\$10,000,000 to below HK\$50,000,000	7	5
HK\$1,000,000 to below HK\$10,000,000	11	17
Below HK\$1,000,000	8	11
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	26	34
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### *Direct costs*

Our direct costs increased by approximately HK\$0.3 million from approximately HK\$181.8 million for the eight months period ended 30 November 2016 to approximately HK\$182.1 million for the eight months period ended 30 November 2017. Such increase was in line with the increase in our revenue.

### *Gross profit and gross profit margin*

Our gross profit increased from approximately HK\$19.6 million for the eight months ended 30 November 2016 to approximately HK\$24.5 million for the eight months ended 30 November 2017, representing an increase of approximately 25.0%. Such increase in our gross profit was primarily attributable to our new sizable projects, namely Project 55, Project 56 and Project 60, which we had commenced our works and in full swing in the eight months period ended 30 November 2017 and generated gross profit of approximately HK\$2.0 million, HK\$1.7 million and HK\$9.0 million, respectively.

During the same period, our gross profit margin increased from approximately 9.7% for the eight months ended 30 November 2016 to approximately 11.9% for the eight months ended 30 November 2017. Such increase in our overall gross profit margin was mainly attributable to (i) higher demand for our service in FY2017 and compared to FY2016. In FY2017, we successfully tendered 18 projects and compared to six projects in FY2016. As such, we submitted tenders with relatively higher gross profit margin in FY2017; (ii) our new sizable projects, namely Project 55, Project 56 and Project 60, which accounted for approximately 52.5% of our total gross profit for the eight months ended 30 November 2017 and had higher gross profit margin of approximately 17.2%, 16.3% and 15.1%, respectively; and (iii) our nine new projects, which commenced during the eight months ended 30 November 2017, accounted for approximately 60.5% of our total gross profit for the eight months ended 30 November 2017 and had higher average gross profit margin of approximately 13.9%, compared to our overall gross profit margin of approximately 11.9% for the eight months ended 30 November 2017.

### *Other income*

Our other income maintained stable at approximately HK\$4.2 million for the eight months ended 30 November 2016 and at HK\$4.3 million for the eight months ended 30 November 2017, representing an increase of approximately 2.4%. The slight increase was mainly attributable to the combined effect of (i) increase on our machinery rental income by approximately HK\$2.1 million for the eight months ended 30 November 2017 as a result we rented out our relatively old machinery to our customers for our private sector projects and (ii) decrease in gain on disposal of property, plant and equipment by approximately HK\$1.9 million.

### *Administrative expenses*

Administrative expenses increased from approximately HK\$5.7 million for the eight months ended 30 November 2016 to approximately HK\$17.2 million for the eight months ended 30 November 2017, representing an increase of approximately 201.8%. Such increase was mainly

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attributable to the increase in (i) our staff costs by approximately HK\$3.3 million, in which approximately HK\$1 million was gratuity paid for the fatal accident happened during the eight months ended 30 November 2017 and approximately HK\$2.3 million was mainly attributable to the new recruited staffs near the end of FY2017; and (ii) Listing expenses of approximately HK\$7.6 million for the eight months period ended 30 November 2017.

### *Finance costs*

Our finance costs decreased from approximately HK\$0.8 million for the eight months ended 30 November 2016 to approximately HK\$0.5 million for the eight months ended 30 November 2017. Such decrease was mainly attributable to the decrease in our bank borrowings and finance leases.

### *Income tax expense*

Our income tax expense increased from approximately HK\$2.9 million for the eight months ended 30 November 2016 to approximately HK\$3.1 million for the eight months ended 30 November 2017. While, our Group effective tax rate increased from approximately 16.5% for the eight months ended 30 November 2016 to approximately 28.0% the eight months ended 30 November 2017. Such increase was mainly due to the increase in the tax effect of non-deductible Listing expenses for tax purpose of approximately HK\$1.3 million during the eight months ended 30 November 2017.

### *Profit and total comprehensive income for the period*

As a result of the foregoing, our profit and total comprehensive income amounted to approximately HK\$14.4 million for the eight months ended 30 November 2016 as compared to approximately HK\$8.0 million for the eight months ended 30 November 2017. The decrease in our profit and total comprehensive income was primarily attributable to the recognition of Listing expense of approximately HK\$7.6 million. Excluding the impact of Listing expenses, our Group would have approximately HK\$15.6 million of profit and total comprehensive income for the eight months ended 30 November 2017.

### **Year ended 31 March 2017 compared to year ended 31 March 2016**

#### *Revenue*

Our revenue decreased by approximately HK\$105.2 million from approximately HK\$502.1 million in FY2016 to approximately HK\$396.9 million in FY2017, representing a decrease of approximately 20.9%. The aforesaid decrease was mainly attributable to:

- (i) a decrease in our revenue of approximately HK\$206.6 million from approximately HK\$214.1 million in FY2016 to approximately HK\$7.5 million in FY2017 for our sizable project, Project 33, which commenced in FY2015, was in full swing in FY2016 and completed in FY2017;

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- (ii) a decrease in our revenue of approximately HK\$59.7 million from approximately HK\$87.1 million in FY2016 to approximately HK\$27.4 million in FY2017 for our project, Project 30, which commenced in FY2015, were in full swing in FY2016 and completed in FY2017;
- (iii) a decrease in our revenue of approximately HK\$71.9 million from approximately HK\$71.9 million in FY2016 to approximately HK\$21,000 in FY2017 for our projects, Project 16 and Project 31, which commenced in FY2015, and completed in FY2016;
- (iv) as illustrated below, we recorded an increase in the number of projects handled. However, we recorded a decrease in number of relatively larger scale and higher income projects as a result of the completion of our three sizable projects, namely Project 16, Project 30 and Project 33, which contributed approximately HK\$55.0 million, HK\$87.1 million and HK\$214.1 million revenue in FY2016, respectively, and nil, approximately HK\$27.4 million and HK\$7.5 million revenue in FY2017, respectively; and
- (v) the decrease in revenue of large scale projects in 2017 was offset by the increase in 16 new projects in 2017 which contributed HK\$270.8 million.

	<b>For the year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>Number of projects</i>	<i>Number of projects</i>
<b>Revenue recognised</b>		
HK\$100,000,000 or above	1	1
HK\$50,000,000 to below HK\$100,000,000	2	–
HK\$10,000,000 to below HK\$50,000,000	5	10
HK\$1,000,000 to below HK\$10,000,000	12	13
Below HK\$1,000,000	5	7
	25	31
	25	31

### ***Direct costs***

Direct costs decreased from approximately HK\$472.9 million in FY2016 to approximately HK\$356.4 million in FY2017, representing a decrease of approximately 24.6% which is in line with the overall decrease in total revenue of approximately 20.9%. Such decrease was mainly attributable to the decrease in our material costs and staff costs as we had completed several projects in FY2017.

### ***Gross profit and gross profit margin***

Our gross profit increased from approximately HK\$29.1 million in FY2016 to approximately HK\$40.5 million in FY2017, representing an increase of approximately 39.0%.



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The increase in our gross profit was primarily attributable to (i) Project 47 and Project 49, which commenced and completed in FY2017, generated approximately HK\$9.8 million and HK\$4.0 million in FY2017, respectively; and (ii) our Project 39, Project 40, Project 50 and Project 52, which commenced and were in full swing in FY2017 generated approximately HK\$9.0 million in FY2017 compared to nil in FY2016.

During the same period, our overall gross profit margin increased from approximately 5.8% in FY2016 to approximately 10.2% in FY2017, respectively. The increase in our gross profit margin was mainly attributable to (i) Project 36 and Project 37, which commenced in FY2016 and were in full swing in FY2017, accounted for approximately 19.5% of our total gross profit in FY2017, which had higher gross profit margin of approximately 10.8% and 14.7% in FY2017, respectively; and (ii) our 16 new projects, which commenced in FY2017, accounted for approximately 72.1% of our total gross profit in FY2017 and had higher gross profit margin of approximately 10.8% than our overall gross profit margin of approximately 10.2% in FY2017.

### *Other income*

Our other income decreased from approximately HK\$5.7 million in FY2016 to approximately HK\$4.2 million in FY2017, representing a decrease of approximately 25.8%. Such decrease was mainly attributable to (i) the decrease in the gain on disposal of our property, plant and equipment of approximately HK\$0.9 million; and (ii) decrease in our machinery rental income of approximately HK\$0.7 million.

### *Administrative expenses*

Administrative expenses increased from approximately HK\$7.3 million in FY2016 to approximately HK\$12.1 million in FY2017, representing an increase of approximately 66.4%. Such increase was mainly attributable to the increase in our staff costs by approximately HK\$1.5 million from approximately HK\$1.9 million in FY2016 to approximately HK\$3.4 million in FY2017 and Listing expense of HK\$2.7 million in FY2017.

### *Finance costs*

Our finance costs increased from approximately HK\$1.0 million in FY2016 to approximately HK\$1.2 million in FY2017, representing an increase of approximately 20.5%. Such increase was due to the increase in the interest-bearing bank loans by approximately HK\$5.6 million from approximately HK\$7.7 million in FY2016 to approximately HK\$13.3 million in FY2017, and our interest expense was increased due to the increase in our outstanding bank loan balance.

### *Income tax expense*

Our income tax expense increased from approximately HK\$4.4 million in FY2016 to approximately HK\$5.6 million in FY2017. Such increase was mainly due to the increase in assessable profits of our Group during FY2017. Our Group's effective tax rate increased from 16.4% in FY2016 to 17.9% in FY2017 mainly due to the tax effect of non-deductible Listing expenses for tax purpose of approximately HK\$0.5 million.

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### *Profit and total comprehensive income for the year*

As a result of the foregoing, our profit and total comprehensive income amounted to approximately HK\$25.8 million in FY2017 as compared to approximately HK\$22.2 million in FY2016.

### **Year ended 31 March 2016 compared to year ended 31 March 2015**

#### *Revenue*

Our Group's revenue increased significantly from approximately HK\$259.4 million in FY2015 to approximately HK\$502.1 million in FY2016, representing an increase by approximately HK\$242.7 million or 93.5%. The aforesaid increase was mainly attributable to:

- (i) an increase in our revenue of approximately HK\$285.0 million from approximately HK\$16.3 million in FY2015 to approximately HK\$301.3 million in FY2016 for our sizable projects, Project 30 and Project 33, which commenced in FY2015 and were in full swing in FY2016;
- (ii) an increase in our revenue of approximately HK\$54.5 million in FY2016 for our five new projects;
- (iii) a decrease in revenue by approximately HK\$20.2 million as a result of completion in our 13 projects in FY2015;
- (iv) a decrease in revenue by approximately HK\$44.2 million from approximately HK\$46.4 million in FY2015 to approximately HK\$2.2 million in FY2016 for our Project 17, which achieved significant completion in FY2015 and completed during FY2016; and
- (v) as illustrated below, we recorded a decrease in the number of projects handled. However, we recorded an increase in number of relatively larger scale and higher income projects as a result of our sizable project, namely Project 33, which contributed approximately HK\$214.1 million to our revenue in FY2016 compared with approximately HK\$5.8 million to our revenue in FY2015, respectively.

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**For the year ended 31 March**

	<b>2015</b>	<b>2016</b>
	<i>Number of projects</i>	<i>Number of projects</i>
<b>Revenue recognised</b>		
HK\$100,000,000 or above	–	1
HK\$50,000,000 to below HK\$100,000,000	1	2
HK\$10,000,000 to below HK\$50,000,000	7	5
HK\$1,000,000 to below HK\$10,000,000	18	12
Below HK\$1,000,000	7	5
	33	25
	33	25

### ***Direct costs***

Direct costs increased from approximately HK\$232.6 million in FY2015 to approximately HK\$472.9 million in FY2016, representing an increase of approximately 103.3% which is in line with the upward trend of the revenue of approximately 93.5%. Such increase was mainly attributable to (i) the scale of works undertaken in our foundation works increased, and hence increase in the corresponding material costs and subcontracting charges; and (ii) increase in our staff employed for the projects to cope with our business growth. In particular, we undertook two relatively sizable projects, namely Project 30 and Project 33, which had commenced works in FY2015 and were in full swing in FY2016. Our material costs, subcontracting charges, and staff costs were the main component of our Group's direct costs, amounting to approximately 76.6% and 84.1% of the total direct costs for each of FY2015 and FY2016 respectively.

### ***Gross profit and gross profit margin***

Our gross profit increased from approximately HK\$26.8 million in FY2015 to approximately HK\$29.1 million in FY2016, representing an increase of approximately 8.8%. During the same period, our overall gross profit margin decreased from approximately 10.3% in FY2015 to approximately 5.8% in FY2016, respectively. The aforesaid significant decrease in our overall gross profit margin was mainly attributable to our Project 33, accounted for approximately 28.0% of our total gross profit with relatively low gross profit margin of approximately 3.8% in FY2016. We undertook the aforesaid project because it has a relatively larger scale and higher income which contributed approximately HK\$214.1 million or approximately 42.7% of our total revenue in FY2016, or approximately 18.5% of our total revenue in the Track Record Period. In addition, the low gross profit margin of our Project 33 was attributable to the tight project period of 240 days which incurred significant amount of direct labour costs and overtime costs.

### ***Other income***

Our other income increased from approximately HK\$1.1 million in FY2015 to approximately HK\$5.7 million in FY2016, representing an increase of approximately 425.6%. Such increase was mainly attributable to the increase in our gain on disposal of property, plant and equipment of approximately HK\$4.1 million.

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### *Administrative expenses*

Administrative expenses increased from approximately HK\$5.7 million in FY2015 to approximately HK\$7.3 million in FY2016, representing an increase of approximately 27.1%. Such increase was mainly attributable to the increase in our staff costs and insurance expenses of approximately HK\$0.3 million and HK\$0.3 million, respectively.

### *Finance costs*

Our finance costs increased from approximately HK\$0.8 million in FY2015 to approximately HK\$1.0 million in FY2016, representing a increase of approximately 26.3%. Such increase was due to the increase in the interest-bearing bank loans by approximately HK\$1.6 million from approximately HK\$6.1 million in FY2015 to approximately HK\$7.7 million in FY2016, and our interest expense was increased due to the increase in our outstanding bank loan balance.

### *Income tax expense*

Our income tax expense increased from approximately HK\$3.5 million in FY2015 to approximately HK\$4.4 million in FY2016. Such increase was mainly due to the increase in assessable profits of our Group during FY2016. Our Group effective tax rate remained at similar rate of 16.4% in FY2016 compared to 16.5% in FY2015.

### *Profit and total comprehensive income for the year*

As a result of the foregoing, our profit and total comprehensive income amounted to approximately HK\$22.2 million in FY2016 as compared to approximately HK\$17.8 million in FY2015.

### **RETAINED EARNINGS/(LOSS)**

Our Group recorded retained profits throughout the Track Record Period in our consolidated statements of changes in equity:

	1 April	31 March	As at 31 March	31 March	30 November
(HK\$'000)	2014	2015	2016	2017	2017
Retained earnings/(loss)	(628)	17,209	39,409	65,234	73,257

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Prior to the FY2014, our scale of business was less than half of our current level. As at 1 April 2014, our Group recorded an accumulated loss of approximately HK\$628,000, such accumulated loss was mainly due to:

- (i) the gross loss of approximately HK\$8.1 million (negative gross margin of approximately 30.8%) incurred for our public rental housing development project located in Shatin (the “**Shatin Project**”). Such negative gross margin in Shatin Project was mainly attributable to (a) the low wastage allowance of only 2% in Shatin Project for concrete work offered by Customer I (the “**Main Contractor**”). Such relatively low wastage allowance led to the Main Contractor counter-charged our Group for the wastage fee exceed the 2% of wastage allowance; (b) the unit rate was charged at a relatively high rate of 10% for the reinforcement works offered by Main Contractor in Shatin Project. Such relatively high percentage unit rate led to the loss of our Group because the quantity of material supplied by the Main Contractor was more than that required by our Group which in turn the Main Contractor counter-charged our Group for the cost of materials and the cost of wastage; (c) our Group’s marginal profit was further deteriorated by the unexpected cost arising from the increase in workforce and labour and material cost due to the overrun of the project, whereby our Group had to put in more resources to mitigate the project delay;
- (ii) the unexpected substantial increase in direct cost arising from the variation orders in our Shatin Project. In view of the tight schedule of the project and project overrun, we had commenced works in relation to the variation orders before negotiating the relevant fees with our customer, who later disagreed with our proposed fees. Our Directors confirmed that the amount eventually received and recognised by us in relation to such variation orders was less than the related additional costs incurred for those additional works. The aforesaid Shatin Project completed in January 2014, and the total amount of revenue recognised and cost incurred for this project were amounted to approximately HK\$37.0 million and HK\$46.2 million, respectively; and
- (iii) our low budgeted profit margin for several foundation work projects in order to gain market share and the increase in our Group’s operating expenses during FY2014, our Group recorded a loss of approximately HK\$3.0 million for FY2014. Thus, our Group recorded an accumulated loss of approximately HK\$628,000 as at 1 April 2014 and did not have any material outstanding tax payable as at 31 March 2014.

Subsequent to FY2014, our Group then experienced expansion and growth mainly due to (i) the gross output value of foundation works performed by subcontractors in Hong Kong increased from HK\$10.5 billion in 2014 to HK\$12.1 billion in 2016 and expect to further increase to approximately HK\$13.3 billion in 2017 in accordance to the CIC Report; (ii) the solicit of New Concepts Group and Vibro (HK) Limited on January 2014 and February 2014, respectively, by way of introduction from the industry peers; and (iii) the proactive effort of the Directors in procuring new customers to diversify the Group’s customer base. As such, our scale of operation increased throughout the Track Record Period. Our Group experienced a change from accumulated losses of approximately HK\$628,000 as at 1 April 2014 to retained earnings of

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approximately HK\$17.2 million at as 31 March 2015. Our Group's retained earnings further increased from approximately HK\$39.4 million as at 31 March 2016 to approximately HK\$65.2 million as at 31 March 2017, and approximately HK\$73.3 million as at 30 November 2017, respectively. Our Directors confirmed that there had been no material changes in its pricing strategies subsequent to FY2014. Our Directors further confirmed that there was no material dispute between the Group and its customers for the projects completed during the Track Record Period.

### LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth a summary of our cash flows for the years/periods indicated:

	For the year ended 31 March			For the eight months ended 30 November	
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
				(Unaudited)	
Operating profit before working capital changes	33,324	33,867	39,333	21,082	15,754
Cash generated from/(used in) operations	11,129	3,227	30,613	5,549	(9,915)
Income tax paid	(149)	(1,954)	(8,032)	(811)	(1,267)
Net cash from/(used in) operating activities	10,980	1,273	22,581	4,738	(11,182)
Net cash (used in)/from investing activities	(1,907)	456	601	366	(1,433)
Net cash used in financing activities	(5,784)	(6,606)	(2,007)	(278)	(6,509)
Net increase/(decrease) in cash and cash equivalents	3,289	(4,877)	21,175	4,826	(19,124)
Cash and cash equivalent at the beginning of the year/period	5,681	8,970	4,093	4,093	25,268
<b>Cash and cash equivalent at the end of the year/period</b>	<b>8,970</b>	<b>4,093</b>	<b>25,268</b>	<b>8,919</b>	<b>6,144</b>

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### NET CASH FROM OPERATING ACTIVITIES

Our cash inflows from operating activities is primarily generated from foundation works. During the Track Record Period, our cash outflows for operating activities is primarily related to staff costs, purchase of construction materials, subcontracting charges and administrative expenses. Our cash flows from operating activities is affected by a number of factors, which include the progress of construction works projects and the settlement of trade receivables by our customers and trade payables by our Group.

For the eight months ended 30 November 2017, our net cash used in operating activities amounted to approximately HK\$11.2 million, while our cash inflows from operating activities after adjusting for non-cash items but before movements in working capital was approximately HK\$15.8 million. The difference of approximately HK\$4.6 million was mainly attributable to (i) decrease in our trade and other receivables of approximately HK\$18.7 million; (ii) decrease in our trade and other payables of approximately HK\$24.9 million mainly in relation to the completion of our Project 30 and Project 47; and (iii) increase in amounts due from customers for contract work of approximately HK\$17.7 million.

In FY2017, our net cash generated from operating activities amounted to approximately HK\$22.6 million, while our cash inflows from operating activities after adjusting for non-cash items but before movements in working capital was approximately HK\$39.3 million. The difference of approximately HK\$16.7 million was mainly attributable to (i) increase in our trade and other receivables of approximately HK\$28.2 million mainly in relation to our Project 30, Project 47 and Project 49; (ii) increase in our trade and other payable of approximately HK\$24.7 million; and (iii) the payment of income tax of HK\$8.0 million.

In FY2016, our net cash generated from operating activities amounted to approximately HK\$1.3 million, while our cash inflows from operating activities after adjusting for non-cash items but before movements in working capital was approximately HK\$33.9 million. The difference of approximately HK\$32.6 million was mainly attributable to (i) increase in trade and other receivables of approximately HK\$10.8 million mainly in relation to our Project 30, Project 33 and Project 34; (ii) increase in our amounts due from customers for contract work of approximately HK\$11.1 million mainly due to excess of costs incurred over the progress billings based on work progress certified; and (iii) increase in our trade and other payables of approximately HK\$4.4 million.

In FY2015, our net cash generated from operating activities amounted to approximately HK\$11.0 million, while our cash inflows from operating activities after adjusting for non-cash items but before movements in working capital was approximately HK\$33.3 million. The difference of approximately HK\$22.3 million was mainly attributable to (i) increase in our trade and other receivables of approximately HK\$11.9 million primarily due to increase in value of works completed and certified by our customers; (ii) increase in our amounts due from customers for contract work of approximately HK\$12.0 million; and (iii) increase in our trade and other payables of approximately HK\$10.1 million.



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### NET CASH (USED IN)/FROM INVESTING ACTIVITIES

Our cash outflows for investing activities was primarily utilised to acquire property, plant and equipment to cope with our Group's business expansion. During the Track Record Period, our cash inflows from investing activities was primarily derived from proceeds from disposal of property, plant and equipment.

For the eight months ended 30 November 2017, our net cash used in investing activities amounted of approximately HK\$1.4 million which was mainly related to the cash outflows of approximately HK\$4.6 million from the purchase of property, plant and equipment offset with proceeds from disposal of property, plant and equipment of approximately HK\$3.2 million.

In FY2017, our net cash from investing activities amounted to approximately HK\$0.6 million which was mainly related to the cash outflows of approximately HK\$4.5 million to purchase our machineries, offset by the proceeds from the disposal of property, plant and equipment of approximately HK\$5.1 million.

In FY2016, our net cash from investing activities amounted to approximately HK\$0.5 million which was mainly related to the cash outflows of approximately HK\$10.7 million to purchase our machineries, offset by the proceeds from the disposal of property, plant and equipment of approximately HK\$11.2 million.

In FY2015, our net cash used in investing activities amounted to approximately HK\$1.9 million which was mainly related to the cash outflows of approximately HK\$2.3 million to purchase our machineries, partially offset by the proceeds from the disposal of property, plant and equipment of approximately HK\$0.4 million.

### NET CASH USED IN FINANCING ACTIVITIES

Our cash outflows from financing activities was primarily from repayment of bank borrowings and interests, and repayment of finance lease liabilities. During the Track Record Period, our cash inflows from financing activities primarily consisted of proceeds from bank borrowings.

For the eight months ended 30 November 2017, our net cash used in financing activities amounted to approximately HK\$6.5 million which was mainly attributable to (i) approximately HK\$7.2 million for the repayment of bank borrowings; (ii) approximately HK\$4.6 million for the repayment of finance lease liabilities; and (iii) partially offset with approximately HK\$5.8 million of proceeds from bank borrowings.

In FY2017, our net cash used in financing activities amounted to approximately HK\$2.0 million which was mainly attributable to (i) approximately HK\$17.4 million for the repayment of bank borrowings; (ii) approximately HK\$6.4 million for the repayment of finance lease liabilities; and (iii) partially offset with approximately HK\$23.0 million of proceeds from bank borrowings.



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In FY2016, our net cash used in financing activities amounted to approximately HK\$6.6 million which was mainly attributable to (i) approximately HK\$21.4 million for the repayment of bank borrowings; (ii) approximately HK\$7.2 million for the repayment of finance lease liabilities; and (iii) partially offset with approximately HK\$23.0 million of proceeds from bank borrowings.

In FY2015, our net cash used in financing activities amounted to approximately HK\$5.8 million which was mainly attributable to (i) approximately HK\$13.1 million for the repayment of bank borrowings; (ii) approximately HK\$7.1 million for the repayment of finance lease liabilities; and (iii) partially offset with approximately HK\$15.1 million of proceeds from bank borrowings.

### SUFFICIENCY OF WORKING CAPITAL

Taking into account the cash generated from operating activities, the net proceeds of the Share Offer and the credit facilities maintained with financial institutions, our Directors are satisfied that we will have sufficient working capital for our Group's present requirements during the 12 months following the date of this prospectus.

### COMMITMENTS

During the Track Record Period, our commitments consisted of operating lease commitments in relation to the lease of our offices, warehouse and open storages.

### OPERATING LEASE COMMITMENTS

#### *Our Group as lessee*

Our Group leases its offices, warehouse and open storages. Lease is negotiated for an original term of eight months to three years. As at 31 March 2015, 2016, 2017, 30 November 2017 and 31 March 2018, the total future minimum lease payments payable by our Group (as lessee in respect of the leases of office properties and warehouses) under non-cancellable operating leases which fall due as follow:

	As at 31 March		As at 30 November		As at 31 March
	2015	2016	2017	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	791	2,144	1,293	1,530	1,430
In the second to fifth years	23	692	572	1,615	195
	<u>814</u>	<u>2,836</u>	<u>1,865</u>	<u>3,145</u>	<u>1,625</u>

## FINANCIAL INFORMATION

### NET CURRENT ASSETS

#### Composition of our net current assets position

As at 31 March 2015, 2016, 2017, 30 November 2017 and 31 March 2018 we recorded net current liabilities of approximately HK\$4.5 million, net current assets of approximately HK\$19.4 million, HK\$47.5 million, HK\$55.2 million and HK\$67.1 million, respectively.

	As at 31 March		As at 30 November		As at 31 March
	2015	2016	2017	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
<b>Current assets</b>					
Trade and other receivables	47,929	58,763	86,936	68,191	87,092
Amounts due from customers					
for contract work	26,642	37,734	38,103	55,807	51,202
Cash and bank balances	8,970	4,093	25,268	6,144	10,914
	<u>83,541</u>	<u>100,590</u>	<u>150,307</u>	<u>130,142</u>	<u>149,208</u>
<b>Current liabilities</b>					
Trade and other payables	44,784	47,573	71,895	46,987	52,394
Bank borrowings	6,096	7,739	13,308	11,890	23,180
Obligations under finance					
leases	5,459	5,532	4,611	3,014	2,996
Amounts due to customers for					
contract work	6,346	493	1,483	4,025	–
Amount due to a director	21,684	14,400	8,553	4,209	1,434
Tax payable	3,709	5,443	2,967	4,778	2,059
	<u>88,078</u>	<u>81,180</u>	<u>102,817</u>	<u>74,903</u>	<u>82,063</u>
<b>Net current (liabilities)/assets</b>	<u>(4,537)</u>	<u>19,410</u>	<u>47,490</u>	<u>55,239</u>	<u>67,145</u>

Our Group recorded an increase in net current assets position by approximately HK\$23.9 million as at 31 March 2016 as compared to the net current liabilities of approximately HK\$4.5 million as at 31 March 2015. This was mainly attributable to (i) increase in trade and other receivables of approximately HK\$10.8 million; (ii) increase in amounts due from customers for contract work which generated from our profitable operation of approximately HK\$11.1 million; and partially offset by (iii) an increase in trade and other payables of approximately HK\$2.8 million. As at 31 March 2017, our Group's net current assets position increased to approximately

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HK\$47.5 million due to (i) increase in our trade and other receivables of approximately HK\$28.2 million; (ii) increase in our cash and bank balances of approximately HK\$21.2 million; and offset by (iii) increase in trade and other payables of HK\$24.3 million.

As at 30 November 2017, our Group's net current assets position increased to approximately HK\$55.2 million primarily due to the (i) increase in our amounts due from customers for contract work of approximately HK\$17.7 million; and (ii) decrease in our trade and other payables of approximately HK\$24.9 million.

### TRADE AND OTHER RECEIVABLES ANALYSIS

Our trade and other receivables consisted of (i) trade receivables; (ii) retention receivables; and (iii) deposits, prepayments and other receivables. The following table sets out the breakdown of trade and other receivables as at the respective dates indicated:

	As at 31 March		As at 30 November	
	2015	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	23,009	27,325	56,257	21,965
Retention receivables	22,109	25,722	18,900	24,964
Deposits, prepayments and other receivables	2,811	5,716	11,779	21,262
	<u>47,929</u>	<u>58,763</u>	<u>86,936</u>	<u>68,191</u>

### Trade receivables

Our trade receivables represent the amounts of contract work performed by us that the payment applications had been submitted by us but not yet paid by the customers. In general, our Group submits payment applications to our customers on a monthly basis in accordance with the value of work, which may include variation works and claims, if any, undertaken for construction works projects. The credit terms we granted to our customers vary from contract to contract. Such credit terms may make reference to the payment certificate date or payment application date, depending on the terms of individual contracts, typically ranged from 30 days to 45 days from our payment application date.

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## FINANCIAL INFORMATION

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The following table sets out our turnover days of trade receivables during the Track Record Period:

	For the year ended 31 March			For the eight months ended 30 November
	2015	2016	2017	2017
Trade receivables ( <i>HK\$'000</i> )	23,009	27,325	56,257	21,965
Revenue ( <i>HK\$'000</i> )	259,403	502,053	396,880	206,115
Turnover days of trade receivables ( <i>Note</i> )	30.9 days	18.3 days	38.4 days	46.3 days

*Note:* The trade receivables turnover days for a given year/period is calculated based on the average of beginning and ending total trade receivables balance as at the year-end/period-end divided by revenue for that year/period and multiplied by the numbers of days of the year or period (i.e. 365 days for a full year and 244 days for the eight months ended 30 November).

As our business operates on a non-recurring and project-by-project basis, our revenue recognised during the Track Record Period may fluctuate subject to the size and the progress of our foundation works contracts at a given time, thereby affecting our trade receivables balances as at the respective year ends, and the trade receivables turnover days during the Track Record Period.

Whilst our revenue increased from approximately HK\$259.4 million in FY2015 to approximately HK\$502.1 million in FY2016, our trade receivables increased from approximately HK\$23.0 million as at 31 March 2015 to approximately HK\$27.3 million as at 31 March 2016. Our Group's revenue decreased to approximately HK\$396.9 million in FY2017 as several projects substantially completed near the year end, while our Group's trade receivables increased from approximately HK\$27.3 million in FY2016 to HK\$56.3 million in FY2017 due to the increase in number of works commenced.

During the Track Record Period, our Group's trade receivables turnover days were 30.9 days, 18.3 days, 38.4 days and 46.3 days for each of the three years ended 31 March 2017 and the eight months ended 30 November 2017, respectively. The decrease in trade receivables turnover days from approximately 30.9 days for the year ended 31 March 2015 to approximately 18.3 days for the year ended 31 March 2016 was mainly attributable to the (i) substantial year-on-year increase in revenue for the year ended 31 March 2016; and (ii) our sizable project, namely Project 33 which contributed approximately HK\$214.1 million to our revenue in FY2016, had been substantially completed and settled most of the progress billing in relation to Project 37 had been during the year, resulting a relatively low trade receivables balances in FY2016. The increase in trade receivables turnover days from approximately 38.4 days for the year ended 31 March 2017 to approximately 46.3 days for the eight months ended 30 November 2017 was mainly attributable to our new sizable public sector project, namely Project 60 which had relatively large amount of trade receivables during the eight months ended 30 November 2017 as a result of the completion of certain works.

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The following table sets out an aging analysis of our trade receivables as of the dates indicated:

	As at 31 March		As at 30 November		Subsequent settlement up to the Latest Practicable Date	
	2015	2016	2017	2017		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%
0 to 30 days	16,426	10,511	42,513	7,440	7,440	100.0
31 to 60 days	6,416	11,963	8,783	2,756	2,756	100.0
61 to 90 days	127	4,251	4,684	1,154	1,154	100.0
Over 90 days	40	600	277	10,615	10,615	100.0
	<u>23,009</u>	<u>27,325</u>	<u>56,257</u>	<u>21,965</u>	21,965	100.0

Up to the Latest Practicable Date, all of our trade receivables as at 30 November 2017 had been settled. Our trade receivables aged over 90 days increased from approximately HK\$0.3 million as at 31 March 2017 to approximately HK\$10.6 million as at 30 November 2017 was mainly due to the delay in payment from our Customer G and Customer H, representing approximately 48.3% of our overdue balance. Such delay was mainly due to (i) Customer G requesting delay in payment as change in their human resources and internal procedures; and (ii) Customer H requesting delay in payment as they have yet to be paid by the main contractor. All of the outstanding of approximately HK\$10.6 million have been settled in March 2018.

We did not make any provision for doubtful debt in respect of trade receivables during the Track Record Period. When determining the provision of doubtful debts, our Directors would consider individual customers on a case-by-case basis, and will take into account the factors including but not limited to, the customers' credit history, customers' reputation and customers' financial condition. Our directors consider that there has not been a significant change in credit quality of the trade receivables and there was no recent history of default; therefore, the amounts of receivables are considered recoverable.

### Retention receivables

Retention receivables represent the retention money required by our customers to secure our Group's due performance of the contracts. Typically, the amount of retention money depends on negotiations between the parties, which are 10.0% of the value of works certified and is subject to a maximum retention of 5.0%, respectively, of the total original contract value. The terms and conditions in relation to the release of retention money also vary from contract to contract, which may be subject to the completion of the contract works, or a pre-agreed time period after the completion of the contract works.

Our retention receivables amounted to approximately HK\$22.1 million, HK\$25.7 million, HK\$18.9 million and HK\$25.0 million as at 31 March 2015, 2016, 2017 and 30 November 2017, respectively. No material amounts in relation to retention receivable of our Group were past due at each reporting period end.

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As the release of retention money varies from contract to contract, which may be subject to, completion of the contract works or a pre-agreed time period after the completion of the contract works, our Directors consider that it being common that these balances vary from period to period. When determining whether or not it is necessary to make impairment on retention receivables, our Directors would consider individual customers on a case-by-case basis and will take into account the factors including, but not limited to, the customers' credit history, customers' reputation and customers' financial condition. During the Track Record Period, our Group did not experience material difficulty in collecting the retentions receivable from customers and accordingly did not make any impairment in this regard.

### Deposits, prepayments and other receivables

The following table sets out our deposits, prepayments and other receivables as at the date indicated:

	As at 31 March		As at 30 November	
	2015	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables and prepayments	2,279	4,700	10,554	20,071
Utility and other deposits	532	1,016	1,225	1,191
	<u>2,811</u>	<u>5,716</u>	<u>11,779</u>	<u>21,262</u>

Deposits, prepayments and other receivables mainly consist of rental deposits, utilities deposits, prepayments for Listing expenses, prepayments for rental expenses, and insurance compensation receivables in relation to work injuries.

As at 31 March 2015, 2016, 2017 and 30 November 2017, our deposits, prepayments and other receivables in current assets amounted to approximately HK\$2.8 million, HK\$5.7 million, HK\$11.8 million and HK\$21.3 million, respectively. Our deposits, prepayments and other receivables increased from approximately HK\$2.8 million as at 31 March 2015 to approximately HK\$5.7 million as at 31 March 2016. Such increase was mainly due to increase in our insurance compensation receivables in relation to work injuries from approximately HK\$1.5 million as at 31 March 2015 to approximately HK\$3.3 million as at 31 March 2016. As at 31 March 2017, our deposits, prepayments and other receivables further increased to approximately HK\$11.8 million, which was mainly due to increase in our prepayments of Listing expenses of approximately HK\$0.8 million and our payment in advance to our subcontractor of approximately HK\$5.9 million. Our deposits, prepayments and other receivables further increased to approximately HK\$21.3 million, which was mainly due to increase in our other receivables and prepayments of approximately HK\$5.3 million in the advance of salaries paid on behalf of subcontractors for Project 36 and Project 43, and approximately HK\$2.3 million in the prepayments of Listing expenses, respectively.

## FINANCIAL INFORMATION

### AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

Our revenue from contract work is recognised based on the stage of completion of the contracts. The stage of completion is established by reference to contract works certified by the customers and their agents. Generally, for projects recognised under contract work, we apply for progress billing to reflect our works performed on monthly basis and our customers issue a payment certificate certifying the portion of works completed after inspection. As it takes time for the payment certificates to be issued, there is normally a timing difference between the completion of site works, the issuance of payment certificates and the billing of the construction projects.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as assets as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as liabilities as amounts due to customers for contract work. The following table sets out the amounts due from/(to) customers for contract work as at the end of each financial year as indicated.

	As at 31 March			As at
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Contracts in progress at the end of each reporting period:</b>				
Contract costs incurred plus recognised profits less recognised losses	367,151	789,379	422,741	573,128
Less: progress billings	<u>(346,855)</u>	<u>(752,138)</u>	<u>(386,121)</u>	<u>(521,346)</u>
Contract work-in-progress	<u>20,296</u>	<u>37,241</u>	<u>36,620</u>	<u>51,782</u>
	As at 31 March			As at
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Analysed for reporting purpose as:</b>				
Amounts due from customers for contract work	26,642	37,734	38,103	55,807
Amounts due to customers for contract work	<u>(6,346)</u>	<u>(493)</u>	<u>(1,483)</u>	<u>(4,025)</u>
	<u>20,296</u>	<u>37,241</u>	<u>36,620</u>	<u>51,782</u>

## FINANCIAL INFORMATION

As at 31 March 2015, 2016, 2017 and 30 November 2017, our amounts due from customers for contract work were approximately HK\$26.6 million, HK\$37.7 million, HK\$38.1 million and HK\$55.8 million, respectively. Such amounts were primarily attributable to works completed but our Group had not yet billed the whole value of construction works performed, as we did not receive the interim payment certificate and final accounts for the amount of certain variation order works and contract works from the customer.

Of the amount of approximately HK\$55.8 million amounts due from customers for contract work as at 30 November 2017, approximately HK\$43.7 million, representing approximately 78.4% of the amounts due from customers for contract work, had been subsequently billed and approximately HK\$21.3 million, representing approximately 38.1% of the amounts due from customers for contract work, had been subsequently settled up to the Latest Practicable Date.

The amount due from/(to) customers for contract work are typically affected by the value of works we performed close to the end of each reporting period and the timing of receiving certificates, thus the amounts vary from period to period. Furthermore, considering the vast number of items related to construction works projects, negotiation with customers for the value of work, performed by us set out in the payment certificates is common.

As at 30 November 2017, we had approximately HK\$77.8 million trade receivables and amounts due from customers for contract work. Of the total amount of approximately HK\$77.8 million, approximately HK\$43.3 million, representing approximately 55.7% of the total amount of trade receivable and amount due from customers for contract work, had been subsequently settled up to the Latest Practicable Date.

### CASH AND BANK BALANCES

As at 31 March 2015, 2016, 2017 and 30 November 2017, we had cash and bank balances of approximately HK\$9.0 million, HK\$4.1 million, HK\$25.3 million and HK\$6.1 million, respectively.

### TRADE AND OTHER PAYABLES ANALYSIS

Our trade and other payables consisted of (i) trade payables; (ii) retention payables; and (iii) accruals and other payables. The following table sets out the breakdown of trade and other payables as at the respective dates indicated:

	As at 31 March			As at
	2015	2016	2017	30 November 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	20,247	26,011	49,434	26,071
Retention payables	161	2,552	4,022	5,079
Accruals and other payables	24,376	19,010	18,439	15,837
	<u>44,784</u>	<u>47,573</u>	<u>71,895</u>	<u>46,987</u>



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### Trade payables

Our trade and retention payables are primarily related to goods supplied by our suppliers and works performed by subcontractors. The following table sets out our turnover days of trade payables during the Track Record Period:

	For the year ended 31 March			For the eight months ended 30 November
	2015	2016	2017	2017
Trade payables ( <i>HK\$'000</i> )	20,247	26,011	49,434	26,071
Direct costs (adjusted for excluding certain direct costs) ( <i>Note</i> ) ( <i>HK\$'000</i> )	140,609	351,187	283,747	138,996
Turnover days of trade payables ( <i>Note</i> )	46.6 days	24.0 days	48.5 days	66.3 days

*Note:* The trade payables turnover days for a given year/period is calculated based on the average of beginning and ending total trade payables balance as at the year-end/period-end divided by the direct costs (excluding staff costs directly involved in projects and depreciation expenses) for that year/period and multiplied by the numbers of days of the year or period (i.e. 365 days for a full year and 244 days for the eight months ended 30 November).

Our direct costs increased from approximately HK\$232.6 million in FY2015 to approximately HK\$472.9 million in FY2016, while our trade payables increased from approximately HK\$20.2 million as at 31 March 2015 to approximately HK\$26.0 million as at 31 March 2016. Such increase in trade payables was mainly attributable to the increase in credit purchase near the end of FY2016.

As our business operates on a non-recurring and project-by-project basis, our direct costs incurred during the Track Record Period may fluctuate, subject to the size and the progress of our construction works at a given time, thereby affecting our trade payables balance as at the respective year ends and the trade payables turnover days during the Track Record Period. During the Track Record Period, our Group's trade payables turnover days were approximately 46.6 days, 24.0 days, 48.5 days and 66.3 days, respectively, which were primarily affected by different credit periods granted by different suppliers. An average of 30 days was usually granted.

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The following is an aging analysis of the trade payables as at each reporting dates:

	As at 31 March			As at
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
0 to 30 days	8,161	9,735	18,738	2,031
31 to 60 days	5,436	3,823	11,783	2,949
61 to 90 days	3,679	1,582	7,189	3,935
Over 90 days	2,971	10,871	11,724	17,156
	<u>20,247</u>	<u>26,011</u>	<u>49,434</u>	<u>26,071</u>

Up to the Latest Practicable Date, 61.4% of our trade payables as at 30 November 2017 had been settled.

### Retention payables

As at each of 31 March 2015, 2016, 2017 and 30 November 2017, the retention payables were approximately HK\$161,000, HK\$2.6 million, HK\$4.0 million and HK\$5.1 million respectively. The release of retention money varies from contract to contract, which may be subject to, completion of the contract works or a pre-agreed time period after the completion of the contract works. As a result of our expanding business, we outsourced more of our construction works to subcontractors and our retention payables was in an increasing trend during the Track Record Period. Approximately 7.1% of the retention payables as at 30 November 2017 was subsequently settled up to the Latest Practicable Date.

### Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables as at each reporting date:

	As at 31 March			As at
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Accruals	13,519	9,642	8,153	11,553
Other payables	10,857	9,368	10,286	4,284
	<u>24,376</u>	<u>19,010</u>	<u>18,439</u>	<u>15,837</u>

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Our accruals mainly represented (i) accruals for salaries and wages; (ii) auditor's remuneration; and (iii) accruals for machineries acquisition costs. Accruals decreased from approximately HK\$13.5 million as at 31 March 2015 to approximately HK\$9.6 million as at 31 March 2016 was mainly due to the decrease in the accrued salaries and wages by approximately HK\$2.8 million. As at 31 March 2017, accruals decreased from approximately HK\$9.6 million as at 31 March 2016 to approximately HK\$8.2 million as at 31 March 2017 mainly attributable to the decrease in the accruals for machineries acquisition costs by approximately HK\$1.8 million. As at 30 November 2017, accruals increased from approximately HK\$8.2 million as at 31 March 2017 to approximately HK\$11.6 million as at 30 November 2017 mainly attributable to the increase in the accrued expenses of machineries by approximately HK\$2.5 million and accrued salaries and wages by approximately HK\$0.5 million, respectively.

### AMOUNT DUE TO A DIRECTOR

Details of the amount due to our Director, Mr. Chan are summarised in note 20 to the Accountants' Report set out in the Appendix I to this prospectus. Our amounts due to Mr. Chan are unsecured, non-interest bearing and repayable on demand. All the amounts due to Mr. Chan are non-trade in nature and will be fully settled before Listing. The amounts due to Mr. Chan as at 31 March 2015, 2016, 2017 and 30 November 2017 are set out below:

	As at 31 March		As at	
	2015	2016	2017	30 November 2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Chan ( <i>Notes</i> )	21,684	14,400	8,553	4,209

*Notes:*

1. Executive director of our Group during the Track Record Period.
2. The amounts are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

## FINANCIAL INFORMATION

### INDEBTEDNESS AND CONTINGENT LIABILITIES

As at 31 March 2015, 2016, 2017, 30 November 2017 and 31 March 2018, our Group had a total indebtedness of approximately HK\$35.2 million, HK\$33.4 million, HK\$30.4 million, HK\$20.1 million and HK\$28.4 million, respectively. The following table sets forth a summary of our Group indebtedness as at the dates indicated:

	As at 31 March			As at	As at
	2015	2016	2017	30 November 2017	31 March 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)
<b>Current liabilities</b>					
Bank borrowings	6,096	7,739	13,308	11,890	23,180
Obligations under finance leases	5,459	5,532	4,611	3,014	2,996
Amount due to a director	21,684	14,400	8,553	4,209	1,434
	<u>33,239</u>	<u>27,671</u>	<u>26,472</u>	<u>19,113</u>	<u>27,610</u>
<b>Non-current liabilities</b>					
Obligations under finance leases	1,934	5,688	3,942	955	817
<b>Total</b>	<u><u>35,173</u></u>	<u><u>33,359</u></u>	<u><u>30,414</u></u>	<u><u>20,068</u></u>	<u><u>28,427</u></u>

### BANK BORROWINGS

Our Group raises bank borrowings to finance our working capital. We expect to repay the bank borrowings through our internally generated funds and financing activities. The total outstanding bank borrowings as at 31 March 2015, 2016, 2017, 30 November 2017 and 31 March 2018 were approximately HK\$6.1 million, HK\$7.7 million, HK\$13.3 million, HK\$11.9 million and HK\$23.2 million, respectively.

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Set out below is the maturity profile of our bank borrowings as at the respective dates indicated and the effect of any repayment on demand clauses.

	As at 31 March		As at 30 November		As at 31 March
	2015	2016	2017	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)
<b>Carrying amount based on scheduled repayment date repayable:</b>					
Within one year or on demand	6,096	6,647	9,306	10,639	20,943
More than one year, but not exceeding two years	–	680	4,002	1,251	2,237
More than two years, but not exceeding five years	–	412	–	–	–
	<u>6,096</u>	<u>7,739</u>	<u>13,308</u>	<u>11,890</u>	<u>23,180</u>

As at 31 March 2015 and 2016, the bank borrowings were guaranteed by a personal guarantee provided by Mr. Chan and cross corporate guarantee given between HCC Foundations and HCC Transportation. It carried variable interest rate at 4.0% to 5.0% per annum as at 31 March 2015 and 2016.

As at 31 March 2017 and 30 November 2017, the bank borrowings were guaranteed by a personal guarantee provided by Mr. Chan, cross corporate guarantee given between HCC Foundations and HCC Transportation, and all monies legal charge over the property with Mr. Chan as the mortgagor. It carried variable interest rate at 2.2% to 5.5% per annum as at 31 March 2017 and at 2.2% to 5.0% per annum as at 30 November 2017, respectively. We utilised our banking facilities of approximately HK\$6.1 million, HK\$7.7 million, HK\$13.3 million and HK\$11.9 million as at 31 March 2015, 2016, 2017, and 30 November 2017, respectively. As at 30 November 2017, we utilised our surety bonds given by bank of approximately HK\$5.7 million. As at 31 March 2018, we had an unutilised banking facilities of approximately HK\$0.2 million. The personal guarantee provided by Mr. Chan will be released upon the Listing.

## FINANCIAL INFORMATION

### OBLIGATIONS UNDER FINANCE LEASES

During the Track Record Period, our Group acquired a number of its machineries and motor vehicles for business use by the way of finance lease arrangements mainly through banks and financial institutions. The carrying amounts of all finance lease liabilities are denominated in HK dollars. The following table sets out our obligations under finance leases repayable as at the respective dates indicated:

	As at 31 March		As at 30 November		As at 31 March
	2015	2016	2017	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Due within one year	5,459	5,532	4,611	3,014	2,996
Due in the second to fifth years	1,934	5,688	3,942	955	817
	<u>7,393</u>	<u>11,220</u>	<u>8,553</u>	<u>3,969</u>	<u>3,813</u>

Typically, our Group becomes the owner of the machineries and motor vehicles at the end of the relevant lease term upon payment of a nominal amount. These finance leases are classified as liabilities of our Group and the relevant machineries and motor vehicles are recorded as assets of our Group.

As at 31 March 2015, 2016, 2017 and 30 November 2017, the net book value of plant and machineries of our Group under finance leases amounted to approximately HK\$11.2 million, HK\$13.9 million, HK\$12.3 million and HK\$6.4 million, respectively. The duration of the lease term of finance lease are usually one to three years. The effective interest rate on the financial leases was approximately 5.2% to 10.2%, 4.3% to 10.2%, 3.6% to 10.2% and 3.6% to 6.6% for the year ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, respectively.

### CONTINGENT LIABILITIES

Except as disclosed in the paragraph headed “Bank borrowings” and “Obligations under finance leases” in this section, we do not have other material outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities outstanding as at 31 March 2018, being the date of the indebtedness statement. Our Directors confirmed that as at the Latest Practicable Date, we have not raised material external debt financing.

## FINANCIAL INFORMATION

Our Directors confirmed that we had neither experienced any difficulties in obtaining banking facilities or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period.

### ANALYSIS OF SELECTED FINANCIAL RATIOS

Selected Ratios	Formulae	As at/for the year ended 31 March			As at/for the eight months ended
		2015	2016	2017	30 November 2017
Return on assets	Net profit/total assets x 100%	16.2%	17.1%	14.7%	N/A (Note 2)
Return on equity	Net profit/total equity x 100%	101.9%	55.9%	39.4%	N/A (Note 2)
Gearing ratio	Total debt/total equity (Note 1)	200.9%	84.0%	46.4%	27.3%
Current ratio	Current assets/current liabilities	0.9 times	1.2 times	1.5 times	1.7 times
Quick ratio	(Current assets – inventories)/current liabilities	0.9 times	1.2 times	1.5 times	1.7 times
Interest coverage	Profit before interest and tax/finance costs	27.9 times	27.5 times	27.0 times	23.0 times

*Notes:*

1. Total debt includes bank borrowings, amount due to a director and obligations under finance leases.
2. Return on assets and return on equity are calculated on a full year basis.

### RETURN ON ASSETS

Our return on assets were approximately 16.2%, 17.1% and 14.7% in FY2015, FY2016, FY2017, respectively. Our Group's return on assets increased slightly from 16.2% in FY2015 to approximately 17.1% in FY2016 primarily due to the increase in the value of foundation works contracts completed by our Group certified by our customers, which in turn increased our net profit from approximately HK\$17.8 million in FY2015 to approximately HK\$22.2 million in FY2016.

Our return on assets decreased from approximately 17.1% in FY2016 to approximately 14.7% in FY2017, mainly because (i) our net profit slightly increased by approximately HK\$3.6 million from approximately HK\$22.2 million in FY2016 to approximately HK\$25.8 million in FY2017; and (ii) our total assets increased from approximately HK\$129.7 million in FY2016 to approximately HK\$175.4 million in FY2017 as a result of increase in our trade and other receivables and our cash and bank balances.

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## FINANCIAL INFORMATION

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### RETURN ON EQUITY

Our return on equity was approximately 101.9%, 55.9% and 39.4% in FY2015, FY2016 and FY2017, respectively. Our return on equity decreased from approximately 101.9% in FY2015 to approximately 55.9% in FY2016 primarily due to the increase in retained earnings in FY2016 as a result of the profit generated for the year. For FY2017, our return on equity decreased from approximately 55.9% in FY2016 to approximately 39.4% in FY2017 as the increment of total equity of approximately 65.0% was greater than the increase in profit and total comprehensive income for the year.

### GEARING RATIO

Our gearing ratio as at 31 March 2015, 2016, 2017 and 30 November 2017 was approximately 200.9%, 84.0%, 46.4% and 27.3%, respectively. The decreasing trend of our gearing ratio during the Track Record Period was mainly due to our net assets increased as a result of our profitable business.

### CURRENT RATIO

Our current ratio increased from approximately 0.9 times as at 31 March 2015 to approximately 1.2 times as at 31 March 2016. Such increase was primarily due to the increase in our current assets as a result of increase in our trade and other receivables and our amounts due from customers for contract work during FY2016, while our current liabilities decreased as we repaid certain amounts of amount due to a director.

Our current ratio increased from approximately 1.2 times as at 31 March 2016 to approximately 1.5 times as at 31 March 2017. This was primarily due to the increase in our trade and other receivables and our cash and bank balance during FY2017.

Our current ratio increased from approximately 1.5 times as at 31 March 2017 to approximately 1.7 times as at 30 November 2017. This was primarily due to the increase in our amounts due from customers for contract work during the eight months ended 30 November 2017.

### QUICK RATIO

During the Track Record Period, we did not hold any inventory, accordingly, our quick ratio was the same as our current ratio.

### INTEREST COVERAGE

The interest coverage ratio of our Group during the Track Record Period was approximately 27.9 times, 27.5 times, 27.0 times and 23.0 times, respectively. Our Group's profit before interest and tax had increased from approximately HK\$22.2 million in FY2015 to approximately HK\$27.6 million in FY2016. Furthermore, our finance costs increased from approximately



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## FINANCIAL INFORMATION

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HK\$0.8 million in FY2015 to approximately HK\$1.0 million in FY2016 as our Group had increased in our bank borrowings by approximately HK\$1.6 million in FY2016 when compared to previous year. During the FY2017, our interest coverage ratio decreased slightly from approximately 27.5 times in FY2016 to approximately 27.0 times in FY2017. During the eight months ended 30 November 2017, it further decreased to 23.0 times due to the decrease of profits before interest and tax and finance costs to approximately HK\$11.1 million and HK\$0.5 million, respectively.

### 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 note 26.2, note 26.3 and note 26.4 to the Accountants' Report set out in Appendix I to this prospectus.

### RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in note 24 to the Accountants' Report set out in Appendix I to this prospectus, our Directors believe that such transactions were conducted on normal commercial terms and such terms were no less favourable to our Group than terms available to independent third parties and were fair and reasonable and in the interests of our Shareholders as a whole.

### DIVIDEND

For each of FY2015, FY2016, FY2017 and the eight months ended 30 November 2017, we did not declare any dividend to our Shareholders. 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 results of 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 any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

### DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, the Company has no reserves available for distribution to our Shareholders. The Companies Law provides that share premium account of a company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as the Company may from time to time determine, subject to the provisions, if any, of its memorandum and articles of association, provided that no distribution or dividend may be paid to its members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

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## FINANCIAL INFORMATION

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### LISTING EXPENSES

Our estimated expenses in relation to the Listing including underwriting commissions, are approximately HK\$31.0 million, of which approximately HK\$12.0 million is directly attributable to the issue of Shares to the public and will be accounted for as a deduction from equity upon completion of the Share Offer. The remaining estimated Listing expenses of approximately HK\$19.0 million, was or will be charged to profit or loss, of which approximately HK\$10.3 million have already been recorded in the combined statements of profit or loss and other comprehensive income during the Track Record Period, and approximately HK\$12.6 million and HK\$3.7 million are charged/expected to be charged to the combined statements of profit or loss and other comprehensive income for the year ended 31 March 2018 and the year ending 31 March 2019, respectively. This calculation is based on the Offer Price of HK\$0.32 per Share (being the mid-point of the Offer Price range stated in this prospectus) and the assumption that 300,000,000 Shares are to be offered under the Share Offer and is subject to the adjustment based on the actual amount incurred or to be incurred. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operation for 31 March 2018 will be affected by the estimated expenses in relation to the Listing.

### RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, two new contracts with an aggregate original contract sum of approximately HK\$165.9 million were awarded to our Group. As at the Latest Practicable Date, we had 32 projects on hand (including projects in progress as well as projects awarded to us but not yet commenced) with a total original contract sum of approximately HK\$1,037.3 million, of which approximately HK\$474.1 million had been recognized for the three years ended 31 March 2017 and the eight months ended 30 November 2017, and approximately HK\$399.3 million and approximately HK\$72.3 million are expected to be recognised as revenue during the year ending 31 March 2019 and 31 March 2020, respectively.

Our Directors have confirmed that, save for the Listing expenses as disclosed above, since 30 November 2017 and up to the date of this prospectus, there had been no material adverse change in the trading and financial position or prospects of our Group and no event had occurred that would materially and adversely affect the information shown in the Accountants' Report as set out in Appendix I to the prospectus.

### PROFIT ESTIMATE FOR THE YEAR ENDED 31 MARCH 2018

Estimated unaudited combined profit attributable to equity holders of our Company (*Note 1*) not less than HK\$16.0 million

*Note:*

- (1) The bases on which the above profit estimate for the year ended 31 March 2018 has been prepared are summarized in Appendix III to this prospectus. Our Directors have prepared the estimated combined profit attributable to equity holders of our Company for the year ended 31 March 2018 based on the audited combined results for the eight months ended 30 November 2017 and the unaudited combined results based on management accounts of our Group for four months ended 31 March 2018.

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## FINANCIAL INFORMATION

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### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE**

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

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that as at the Latest Practicable Date, save and except for the guarantees provided by the Controlling Shareholders on the Group’s facilities as disclosed in the section headed “Relationship with the Controlling Shareholders – Independence from our Controlling Shareholders – Financial independence” in this prospectus, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange.

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## FUTURE PLANS AND USE OF PROCEEDS

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### BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed “Business – Business strategies” in this prospectus for our Group’s business objectives and strategies.

### USE OF PROCEEDS

Based on the Offer Price of HK\$0.32 per Offer Share, being the mid-point of the indicative Offer Price ranged of HK\$0.30 per Offer Share to HK\$0.34 per Offer Share, the net proceeds from the Share Offer are estimated to be approximately HK\$65.0 million after deducting the related underwriting fees and estimated expenses in connection with the Share Offer. Our Directors intend to apply to such net proceeds as follows:

- approximately HK\$40.0 million, representing 61.5% of the net proceeds, will be used to purchase machineries and equipment comprising excavators and crawler cranes required for our foundation works (collectively referred to as the “**foundation machinery**”) to comply with the phase out plan in the Technical Circular (the “**Phase Out Plan**”) and to enhance our machinery fleet. For more details of the NRMM Regulation and the Technical Circular, please refer to the section headed “Law and regulation – NRMM Regulation” in this prospectus. As at 30 November 2017, our Group had approximately 64.4% of excavators and 75% of crawler cranes in use were classified as NRMM exempted and subject to the Phase Out Plan. For more information, please refer to the paragraph headed “Business – Our machinery fleet” in this prospectus. With respect to phase 3 of the Phase Out Plan, the exempted NRMM excavators and crawler cranes will be fully phased out in new capital works contracts of public works (including design and build contracts) with an estimated contract value exceeding HK\$200 million from 1 June 2019. According to the CIC Report, it is expected that environmental standards will become increasingly stringent in the future. Thus, we consider that if our Group fails to obtain sufficient qualified foundation machinery, it will adversely affect our competitiveness and hinder our implementation plan in competing for foundation projects and expand our market share. Therefore, we consider that it is imperative for us to upgrade our fleet of NRMM approved foundation machinery and strengthen our execution efficiency by replacing aged foundation machinery with upgrade model.

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## FUTURE PLANS AND USE OF PROCEEDS

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Furthermore, our Directors consider that it is more cost-effective to maintain our own fleet of crawler cranes, and plan to purchase two crawler cranes. The following table sets out our Directors' estimate in relation to the amount of expense saved per annum by maintaining two crawler cranes:

	<b>Estimated expense per annum HK\$'000</b>
Rental expenses for two crawler cranes ( <i>Note 1</i> )	3,600.0
Less: the depreciation expense for two crawler cranes for each financial year ( <i>Note 2</i> )	(1,795.2)
the salaries of two machine operators ( <i>Note 3</i> )	(720.0)
 The amount of expense saved per annum ( <i>Note 4</i> )	 1,084.8

*Note:*

1. The current rental expense of hiring a crawler crane of around 90 to 100 tons (with a machine operator included) from an independent third party would be approximately HK\$150,000 per month.
2. The depreciation expense is calculated based on a useful life of 5 years.
3. The current salary of our machine operator is HK\$30,000 per month.
4. The calculation is based on the assumption that (i) the fuel costs and maintenance costs for hiring crawler cranes are same as those for maintaining our own crawler cranes; and (ii) the incremental storage costs for our own crawler cranes would be minimal.

Particulars of additional foundation machinery we intend to acquire are as follows:

<b>Additional machineries</b>	<b>Estimated costs (HK\$'000)</b>
12 excavators (3 tons)	3,840
10 excavators (7 tons)	4,900
10 excavators (13.5 tons)	6,980
Six excavators (22.5 tons)	5,340
Four excavators (35 tons)	5,400
Two excavators (49 tons)	4,560
Two crawler cranes	8,976
 Total	 39,996

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## FUTURE PLANS AND USE OF PROCEEDS

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For any shortfall (if any) of foundation machinery in the future, our Group may obtain additional foundation machinery through leasing from other machinery providers or our internal resources and/or bank borrowing.

- approximately HK\$14.0 million, representing approximately 21.5% of the net proceeds, will be used for further expanding and strengthening our Group's manpower by (i) recruiting 15 additional full-time staff, including three project managers, three site supervisors, three quantity surveyors and six machine operators; and (ii) providing staff trainings to update our staff's knowledge in the foundation industry and enhance their technical skills. The following table sets out the expected qualifications, experience and salaries of the 15 additional staff to be recruited with the net proceeds from the Share Offer:

	<b>Experience and qualifications</b>	<b>Monthly salary for each staff</b> <i>(Approximate HK\$)</i>
Three project managers	<ul style="list-style-type: none"> <li>- Diploma holder in civil engineering</li> <li>- At least 10 years relevant work experience</li> <li>- Certificate holder of Technically Competent Persons of grade T1 (TCP T1) certificate or above is preferred</li> </ul>	42,000
Three site supervisors	<ul style="list-style-type: none"> <li>- One to two years working experience in related ELS works and pile cap construction works</li> </ul>	26,000
Three quantity surveyors	<ul style="list-style-type: none"> <li>- Higher diploma holder in quantity surveying or equivalent</li> <li>- Minimum three years relevant experience</li> </ul>	41,000
Six machine operators	<ul style="list-style-type: none"> <li>- Minimum two years experience</li> <li>- Hold relevant certificates for operating the machineries</li> </ul>	24,000

- approximately HK\$10.0 million, representing approximately 15.4% of the net proceeds, will be earmarked to secure the more contracts we plan to tender. According to the CIC Report, it is common in the construction industry the subcontractors are required to take out surety bonds. During the Track Record Period and up to the Latest Practicable Date, we had received 18 tender invitations which requested us to provide surety bonds. Due to the Group's limited financial resource, we have not taken out any surety bond during the Track Record Period. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group have provided two surety bonds in

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## FUTURE PLANS AND USE OF PROCEEDS

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favour of Customer H for Project 62 and Project 63 in the sum of HK\$2.4 million and HK\$3.3 million, respectively.

The following table shows the tender invitations which requested us to provide surety bonds and the respective tender result:

	<b>Tender status</b>	<b>Customer</b>	<b>Surety bond amount</b>
During the Track Record Period			
1.	Successful	Vibro (H.K.) Limited	Our Group originally had to provide a surety bond amount of HK\$1,048,877. However, through our negotiations with our customer, we were not required to provide a surety bond.
2.	Successful	Vibro (H.K.) Limited	Our Group originally had to provide a surety bond amount of HK\$1,055,069. However, through our negotiations with our customer, we were not required to provide a surety bond.
3.	Successful	Vibro (H.K.) Limited	Our Group originally had to provide a surety bond amount of HK\$114,675. However, through our negotiations with our customer, we were not required to provide a surety bond.
4.	Successful	Vibro (H.K.) Limited	Our Group originally had to provide a surety bond amount of HK\$179,000. However, through our negotiation with our customer, we were not required to provide a surety bond.
5.	Unsuccessful	Vibro (H.K.) Limited	HK\$1,300,120 (estimated based on 10% of the tender sum)
6.	Unsuccessful	Customer H	HK\$12,091,876 (estimated based on 10% of the tender sum)
7.	Successful	Customer H	Our Group originally has to provide a surety bond amount of HK\$14,000,216. However, through our negotiations with our customer, we were not required to provide a surety bond.

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**FUTURE PLANS AND USE OF PROCEEDS**

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	<b>Tender status</b>	<b>Customer</b>	<b>Surety bond amount</b>
8.	Unsuccessful	Customer H	HK\$9,507,812 (estimated based on 10% of the tender sum)
9.	Successful	Customer H	Our Group has provided a surety bond amount of HK\$2,402,700
10.	Successful	Customer H	Our Group has provided a surety bond amount of HK\$3,341,000
11.	Successful	Customer H	According to the invitation for tender, we are required to provide surety bond amount of HK\$4,295,819 (estimated based on 5% of the tender sum). As at the Latest Practicable Date, we were still negotiating with Customer H in relation to the requirement of surety bond and the result was still pending.

Subsequent to the Track Record Period

12.	Declined to tender <i>(Note)</i>	Customer H	HK\$2,600,000 (estimated based on 10% of the expected tender sum)
13.	Declined to tender <i>(Note)</i>	Customer H	HK\$9,000,000 (estimated based on 10% of the expected tender sum)
14.	Pending	Customer H	HK\$1,217,670 (estimated based on 10% of the tender sum)
15.	Pending	Customer H	HK\$5,079,964 (estimated based on 10% of the tender sum)
16.	Pending	Customer L	HK\$8,003,440 (estimated based on 10% of the tender sum)
17.	Pending	Customer H	HK\$6,239,406 (estimated based on 10% of the tender sum)
18.	Pending	Customer M	HK\$9,087,223 (estimated based on 10% of the tender sum)



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## FUTURE PLANS AND USE OF PROCEEDS

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*Note:* Despite the invitations for tender from the customer, we declined to submit tenders due to the customer's refusal to remove the surety bond requirement condition and our lack of financial resources to provide surety bond as required at the time.

Although our Group had not been required to provide any surety bond during the Track Record Period, our Directors consider that it is an imperative for us to issue surety bond for the following reasons:

1. our Group had not been required to issue surety bond after prolonged negotiations between Vibro (H.K.) Limited and our Directors. Given the relatively short business relationship between Vibro (H.K.) Limited and us and the competition in the foundation industry in Hong Kong, there is no assurance that our customers, including Vibro (H.K.) Limited, or potential customers would not insist on the surety bond requirements in the future;
2. although Vibro (H.K.) Limited had not required us to issue surety bond during the Track Record Period, retention monies representing 10% of the value of works certified had still been retained by Vibro (H.K.) Limited to secure our due performance of the contracts. Therefore, the working capital position of our Group had still been affected by our Group's previous reluctance or refusal to provide surety bonds;
3. it is our Directors' observation that our Group's previous reluctance or refusal to provide surety bonds as required by the conditions of tender has caused our tender less favourable than our competitors and affected our tender success rate; and
4. Our Directors consider that if we are to expand our business and our customer base as well as to undertake more foundation projects from potential customers which requires their subcontractors to take out surety bonds, we must continue to enhance our available financial resources and strengthen our liquidity position in order to satisfy the surety bond requirement for projects that may potentially be awarded to us.

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## FUTURE PLANS AND USE OF PROCEEDS

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### The new projects for which we intend to tender in 2018

To the best of our Directors' knowledge, when the main contractors are preparing their tender documents for submission to the relevant employers of the contracts, they would seek the preliminary view of the subcontractors (like our Group) in terms of the estimated subcontracted fees, scope of works and methodologies in carrying out the works, for reference or inclusion in their tenders.

The table below sets forth the projects tentatively scheduled to commence in the second half of 2018 with estimated contract sum not less than HK\$10 million in which the interested main contractors have consulted our Group, on a non-committed basis, about the scope of the subcontracted works, the estimated fees, programme and the methodology in undertaking the subcontracted works and all of these projects are expected to involve surety bond requirements if any of these customers wins the contracts:

Name of the main contractor	Estimated date for submission of tender <i>(Note)</i>	Estimated date of providing surety bond <i>(Note)</i>	Nature of the contract	Approximate estimated contract sum <i>(HK\$'000)</i> <i>(Note)</i>	Approximate estimated surety bond amount <i>(HK\$'000)</i> <i>(Note)</i>
Customer H	July 2018	August 2018	Foundation work	30,000	3,000
Customer N	July 2018	August 2018	Foundation work	10,000	1,000
Customer H	August 2018	September 2018	Foundation work	40,000	4,000
Vibro (H.K.) Limited	September 2018	October 2018	Foundation work	120,000	12,000
Customer L	September 2018	October 2018	Foundation work	20,000	2,000
Vibro (H.K.) Limited	November 2018	December 2018	Foundation work	80,000	8,000
Vibro (H.K.) Limited	November 2018	December 2018	Foundation work	20,000	2,000

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## FUTURE PLANS AND USE OF PROCEEDS

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Name of the main contractor	Estimated date for submission of tender	Estimated date of providing surety bond	Nature of the contract	Approximate estimated contract sum	Approximate estimated surety bond amount
	<i>(Note)</i>	<i>(Note)</i>		<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
				<i>(Note)</i>	<i>(Note)</i>
Customer H	November 2018	December 2018	Foundation work	20,000	2,000

*Note:* The estimated date of submission of tender, the estimated date of providing surety bonds, the approximate estimated contract sum and the approximate surety bond amount are provided based on our management's best estimation having made reasonable enquiries with potential customers and such dates may be changed by potential customers, subject to the tender schedule, tendering results and customers' requirements.

From the experience of our Directors, if these main contractors win the contracts from the employers, these main contractors would invite our Group and other subcontractors to submit the tender for the corresponding subcontracted works. Our Directors take the view that our Group would be in a better position to estimate the tender price, delineate the scope of the subcontracted works and determinate the methodologies in carrying out such works as we have the advantages of having certain prior understanding of the background of the project and the requirements of the main contractors.

In light of the above, our Directors take the view that our Group has a genuine need to strengthen our cash position in order to enable us to bid for these projects (all of which are expected to involve surety bond requirements), and enhance our tender success rate.

### **Basis of our Directors' belief that our Group would be able to undertake potential new projects which require surety bonds**

Subsequent the Track Record Period, our Group received seven invitations for tender which required us to provide surety bonds with a total surety bond amount of approximately HK\$41.3 million, representing an underlying total contract value of approximately HK\$413 million, and our Group has submitted tender for five of them where the result of which are still pending (the "**Pending Tenders**"). If our Group win the tender submitted for these five projects, we have to provide surety bonds in a total sum of HK\$29.6 million. Having considered our capacity to offer foundation works and our strong project management capability, our Directors are optimistic about the outcome of these Pending Tenders in so far as we agree to provide the surety bonds as requested.

Based on the above illustration and our Directors' experience that the amount of surety bonds required amount to 10% of the total original contract sum from our customers, our Directors are confident that, for the sake of prudence, our Group would be able to

## FUTURE PLANS AND USE OF PROCEEDS

undertake potential new projects which require surety bonds with the total original contract sum of not less than HK\$100.0 million after the Listing;

- approximately HK\$1.0 million or approximately 1.6% of net proceeds will be used as general working capital of our Group.

For the period from the Listing Date to 31 March 2021, our net proceeds from the Share Offer will be used as follows:

	From the Listing Date to 31 March 2019 <i>HK\$'000</i> <i>(approximate)</i>	From 1 April 2019 to 31 March 2020 <i>HK\$'000</i> <i>(approximate)</i>	From 1 April 2020 to 31 March 2021 <i>HK\$'000</i> <i>(approximate)</i>	Total <i>HK\$'000</i> <i>(approximate)</i>
Acquire new machinery and equipment	12,462	15,930	11,604	39,996
Strengthen our manpower and strengthening the skills of our employees	2,830	5,513	5,657	14,000
Reserve more capital to satisfy our potential requirement for surety bond	4,000	4,000	2,000	10,000
General working capital	1,004	–	–	1,004
				65,000

The above allocation of the net proceeds from the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher level or a lower level compared to the midpoint of the indicative Offer Price range.

If the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds to be received by us from the Share Offer will increase or decrease by approximately HK\$5.6 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest of the indicative Offer Price range.

If any of the Adjustment Options is exercised in full, the additional net proceeds received from the offer of the additional Shares allotted and issued will be allocated in accordance with the above allocations on a pro rata basis. For details of the Adjustment Options, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

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## FUTURE PLANS AND USE OF PROCEEDS

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To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks or authorised financial institutions for so long as it is in our best interests.

Should our Directors decide to reallocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will issue an announcement in accordance with the Listing Rules.

### IMPLEMENTATION PLAN

Pursuant of our abovementioned business objectives, the implementation plans of our Group are set forth below for the period from the Listing Date to 31 March 2021:

#### From Listing Date to 30 September 2018

<b>Business strategies</b>	<b>Implementation plans</b>	<b>Use of proceeds HK\$'000 (approximate)</b>
Acquiring additional machineries and equipment to enhance our operational efficiency	– Acquisition of two excavators (3 tons)	640.0
	– Acquisition of one excavator (7 tons)	490.0
	– Acquisition of two excavators (13.5 tons)	1,396.0
	– Acquisition of one excavator (22.5 tons)	890.0
	– Acquisition of one excavator (35 tons)	1,350.0
Further expanding our manpower for project execution and strengthening the skills of our employees	– Recruitment of one project manager	252.0
	– Recruitment of one quantity surveyor	246.0
	– Recruitment of one site supervisor	156.0
	– Recruitment of two machine operators	288.0
	– Provision of trainings to strengthen the skills of our employees	2.0
Further strengthening our capital base for the issue of surety bonds	Undertake more projects should our Group be able to identify and secure suitable business opportunities, with approximately HK\$2.0 million earmarked for satisfying potential customers' requirement for surety bond	2,000.0

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## FUTURE PLANS AND USE OF PROCEEDS

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Six months ending 31 March 2019

Business strategies	Implementation plans	Use of proceeds HK\$'000 ( <i>approximate</i> )
Acquiring additional machineries and equipment to enhance our operational efficiency	– Acquisition of two excavators (3 tons)	640.0
	– Acquisition of two excavators (7 tons)	980.0
	– Acquisition of one excavator (13.5 tons)	698.0
	– Acquisition of one excavator (22.5 tons)	890.0
	– Acquisition of one crawler crane	4,488.0
Further expanding our manpower for project execution and strengthening the skills of our employees	– Recruitment of one project manager	252.0
	– Recruitment of one quantity surveyor	246.0
	– Recruitment of one site supervisor	156.0
	– Recruitment of two machine operators	288.0
	– Additional staff costs for retaining the aforesaid additional staffs for the period, taking into account of the potential increase in wage level	942.0
	– Provision of trainings to strengthen the skills of our employees	2.0
Further strengthening our capital base for the issue of surety bonds	Undertake more projects should our Group be able to identify and secure suitable business opportunities, with approximately HK\$2.0 million earmarked for satisfying potential customers' requirement for surety bond	2,000.0

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## FUTURE PLANS AND USE OF PROCEEDS

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Six months ending 30 September 2019

Business strategies	Implementation plans	Use of proceeds HK\$'000 ( <i>approximate</i> )
Acquiring additional machineries and equipment to enhance our operational efficiency	– Acquisition of two excavators (3 tons)	640.0
	– Acquisition of two excavators (7 tons)	980.0
	– Acquisition of two excavators (13.5 tons)	1,396.0
	– Acquisition of one excavator (22.5 tons)	890.0
	– Acquisition of one excavator (35 tons)	1,350.0
	– Acquisition of one excavator (49 tons)	2,280.0
Further expanding our manpower for project execution and strengthening the skills of our employees	– Recruitment of one project manager	252.0
	– Recruitment of one quantity surveyor	246.0
	– Recruitment of one site supervisor	156.0
	– Recruitment of one machine operator	144.0
	– Additional staff costs for retaining the aforesaid additional staffs for the period, taking into account of the potential increase in wage level	1,884.0
	– Provision of trainings to strengthen the skills of our employees	2.0
Further strengthening our capital base for the issue of surety bonds	Undertake more projects should our Group be able to identify and secure suitable business opportunities, with approximately HK\$2.0 million earmarked for satisfying potential customers' requirement for surety bond	2,000.0

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## FUTURE PLANS AND USE OF PROCEEDS

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Six months ending 31 March 2020

Business strategies	Implementation plans	Use of proceeds <i>HK\$'000</i> <i>(approximate)</i>
Acquiring additional machineries and equipment to enhance our operational efficiency	– Acquisition of two excavators (3 tons)	640.0
	– Acquisition of two excavators (7 tons)	980.0
	– Acquisition of two excavators (13.5 tons)	1,396.0
	– Acquisition of one excavator (22.5 tons)	890.0
	– Acquisition of one crawler crane	4,488.0
Further expanding our manpower for project execution and strengthening the skills of our employees	– Recruitment of one machine operator	144.0
	– Additional staff costs for retaining the aforesaid additional staffs for the period, taking into account of the potential increase in wage level	2,682.0
	– Provision of trainings to strengthen the skills of our employees	3.0
Further strengthening our capital base for the issue of surety bonds	Undertake more projects should our Group be able to identify and secure suitable business opportunities, with approximately HK\$2.0 million earmarked for satisfying potential customers' requirement for surety bond	2,000.0



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## FUTURE PLANS AND USE OF PROCEEDS

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Six months ending 30 September 2020

Business strategies	Implementation plans	Use of proceeds <i>HK\$'000</i> <i>(approximate)</i>
Acquiring additional machineries and equipment to enhance our operational efficiency	– Acquisition of two excavators (3 tons)	640.0
	– Acquisition of two excavators (7 tons)	980.0
	– Acquisition of two excavators (13.5 tons)	1,396.0
	– Acquisition of one excavator (22.5 tons)	890.0
	– Acquisition of one excavator (35 tons)	1,350.0
	– Acquisition of one excavator (49 tons)	2,280.0
Further expanding our manpower for project execution and strengthening the skills of our employees	– Additional staff costs for retaining the aforesaid additional staffs for the period, taking into account of the potential increase in wage level	2,826
	– Provision of trainings to strengthen the skills of our employees	2.0
Further strengthening our capital base for the issue of surety bonds	Undertake more projects should our Group be able to identify and secure suitable business opportunities, with approximately HK\$2.0 million earmarked for satisfying potential customers' requirement for surety bond	2,000.0

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## FUTURE PLANS AND USE OF PROCEEDS

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Six months ending 31 March 2021

Business strategies	Implementation plans	Use of proceeds HK\$'000 (approximate)
Acquiring additional machineries and equipment to enhance our operational efficiency	– Acquisition of two excavators (3 tons)	640.0
	– Acquisition of one excavator (7 tons)	490.0
	– Acquisition of one excavator (13.5 tons)	698.0
	– Acquisition of one excavator (22.5 tons)	890.0
	– Acquisition of one excavator (35 tons)	1,350.0
Further expanding our manpower for project execution and strengthening the skills of our employees	– Additional staff costs for retaining the aforesaid additional staffs for the period, taking into account of the potential increase in wage level	2,826.0
	– Provision of trainings to strengthen the skills of our employees	3.0

### REASONS FOR THE LISTING

Our Directors believe that the Listing will greatly benefit our Group for the following reasons:

- **Necessity of fund raising through the Share Offer**

Our Group has imminent funding needs for expansion of our business and it is imperative for our Company to seek a Listing due to the following reasons:

(i) ***Expected growth in our Group's business in view of our contracts on hand, newly awarded contracts, and outlook of the construction industry***

Our Group's business is expected to expand steadily taking into account our contracts on hand, the newly awarded contracts and the contracts to which we had submitted for tender coupled with the continuous growth in the construction industry. Our Directors believe that the capital raised through the Share Offer would strengthen our Group's cashflow position which in turn enables our Group to undertake more sizeable projects and to capture the growth of the foundation industry in Hong Kong.

- (a) *Contracts on hand and newly awarded:* Subsequent to the Track Record Period and up to the Latest Practicable Date, two additional contracts, with an aggregate original contract sum of approximately HK\$165.9 million were awarded to our Group. As at the Latest Practicable Date, we had 32 projects on hand (including projects in progress as well as projects that awarded to us but not yet commenced) with a total original contract sum of

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## FUTURE PLANS AND USE OF PROCEEDS

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approximately HK\$1,037.3 million, of which approximately HK\$474.1 million had been recognised for three years ended 31 March 2017 and the eight months ended 30 November 2017. Our Group also received some invitations for tender for the projects subsequent to the Track Record Period and up to the Latest Practicable Date with an aggregate expected notional contract sum of over HK\$700.0 million. These projects or potential projects would entail larger amounts of capital but at the same time, a substantive amount of start-up costs and a larger amount of surety bond or retention moneys, which may result in a lock-up of a portion of our capital during the term of the surety bond or the term of the contract and thereby affecting our liquidity.

- (b) *Capital input and upfront costs:* We have to pay the start-up costs such as costs of materials, subcontracting charges and equipment and tooling expenses for certain start-up works including site establishment prior to receiving payment from our customers, who normally make progress payments to us after we have commenced our works. Our cash flow requirement at the initial stage of our projects would constraint the number of projects that we could take under our then available resources. We normally receive invoices from our suppliers after their delivery of construction materials to us and we have to settle them cash on delivery or within 30 days from invoice date.

Furthermore, our customers generally withhold usually 10% of each interim payment up to an aggregate of usually 5% of the total original sum contract sum as retention money, which will only be fully released to our Group subsequent to the expiry of the defect liability period.

- (c) *Net cash outflows at the early stage of the project:* We typically submit a payment application to our customers on a monthly basis based on our works progress and the payments will generally be made to us around 30 to 45 days after payment certification, depending on the terms of individual contracts. In general, our customers make the first payments within approximately two to three months following the commencement of the projects and we would therefore incur net cash outflows at an early stage of carrying out our works.
- (d) *Mismatch of our cash flow:* Some of our customers adopt a “pay when paid” policy with us and they generally pay us after collection of payments from their customers. Therefore, the progress payments from our customer will not always be paid to us on time and in full. However, such “pay when paid” policy has not been mirrored in our terms of engagement with our subcontractors. So, we may experience a mismatch of our cash flow when there is any timing difference between making payments to our suppliers and our subcontractors and receiving payments from our customers.

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## FUTURE PLANS AND USE OF PROCEEDS

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- (e) *Our banking facilities having been utilised:* During the Track Record Period, our Group obtained banking facilities and internal resources to finance the upfront payments. Although our Group has obtained banking facilities from a few banks, our Directors believe that it is necessary to maintain a disciplined financial strategy without exposing our Group to aggressive gearing in order to achieve sustainable growth in the long run; and a cash level sufficient to support our Group's existing operations. Amongst the banking facilities of HK\$23.0 million as at the Latest Practicable Date, HK\$22.5 million of them have been utilised. As at 30 November 2017, our cash and cash equivalents amounted to approximately HK\$6.1 million.

Referring to our cash used in operations, including payments made to suppliers, subcontractors and direct labour for the eight months ended 30 November 2017, we required an average monthly payment of approximately HK\$23.1 million. As such, our Directors consider that the current financial resources available to our Group is only sufficient for the present scale of our business turnover and there are imminent funding needs for our expected business growth.

### *(ii) Industry outlook*

Pursuant to the CIC Report, it is expected that the gross output value of Hong Kong's construction industry will reach HK\$365.7 billion by 2022, representing a CAGR of 8.2% between 2017 and 2022. Also, it is expected that the gross output value of Hong Kong's foundation industry will further reach HK\$19.4 billion in 2022, representing a CAGR of 6.9% from 2017 to 2022 as the increasing demand of residential units in Hong Kong as well as Hong Kong government's plan for increasing public housing supply together helped the foundation industry to keep growing. Our Directors believe that there are still considerable business opportunities and growth drivers in the foundation industry which justify our Group's expansion plan to compete for more foundation projects. For details of the growth drivers and future business opportunities, please refer to the section headed "Industry Overview – Competitive Landscape of Hong Kong's foundation industry – Drivers of Hong Kong's foundation industry" in this prospectus.

### *(iii) Low bank balance and cash position*

Our Group's average cash outflows per month amounted to approximately HK\$23.1 million based on our cash used in operations for the eight months ended 31 November 2017. As at the Latest Practicable Date, we had a bank balance of HK\$12.0 million with unutilised bank facilities of approximately HK\$0.5 million, is therefore marginally able to meet the said monthly cash outflows. Given the low bank balances and cash position, our Company will need to raise fund through the Share Offer to facilitate implementation of our future plans as set out in the paragraph

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## FUTURE PLANS AND USE OF PROCEEDS

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headed “Business – Business strategies” in this prospectus and this section. During the Track Record Period, our Group had not declared any dividends to its shareholders due to our imminent funding need for business expansion.

Our Directors consider that it is necessary to keep surplus cash in our Group for any unexpected inflation of costs due to unstable labour supply in construction industry. As such, in view of our significant cash outflows exposure including payment to suppliers, subcontractors and labours, our Directors believe that our Group needs to generate funds to finance its expansion plan while maintaining sufficient working capital for our Group’s operations.

*(iv) Additional capital required to grasp the business opportunities and consolidate our Group’s market position*

For construction projects in Hong Kong, it is not uncommon for subcontractors to be required to arrange with banks to provide surety bonds or directors and/or shareholders of subcontractors to provide personal guarantee in the amount of certain percentage (usually 10%) of the original contract sum to their customers to ensure subcontractor’s due performance and observance of a subcontract.

The surety bond requirement may result in the lock-up of a portion of our Group’s capital during the term of the surety bond and thereby affecting our liquidity position. Our Directors believe that the Listing will provide sufficient financial resources to satisfy our Group’s liquidity position and meet the surety bond requirement and other working capital requirements for the projects.

- **Necessity of having our own staff, machineries and equipment**

It is our Group’s strategy to expand our market share and compete for more foundation projects. The number of foundation projects we are able to undertake hinges on (a) the availability of our operational resources including the size of its foundation machinery and available manpower resources; and (b) available working capital. Possession of sufficient machinery and equipment is critical to our project execution and maintain our works quality. Owing to the limit on the number of machineries and equipment on hand, we could be restricted to undertaking a limited number of foundation projects. As we expand our fleet of machinery and equipment, it is imperative to recruit sufficient number of plant operators to operate the machinery whereas recruitment of sufficient number of site workers is necessary to cater for our project needs if we take on more foundation projects. Furthermore, in tendering for new projects, availability of machinery and manpower resources are among the key assessment criteria. To increase our tender success rate for the projects to be tendered, it is necessary for us to enhance our competitiveness by establishing a strong fleet of machinery and a stronger workforce. As such, our Directors believe that we have immediate needs to raise fund to purchase 46 additional foundation machinery (including 44 evacuator and two crawler cranes) and recruit 15 staff (including office staff and onsite workers) to compete for more foundation projects.

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## FUTURE PLANS AND USE OF PROCEEDS

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- **Commercial rationale for the Listing**

- (i) *Enhance our Group's corporate profile, credibility and brand awareness*

Our Directors consider that our major competitors in foundation industry in Hong Kong are mostly listed on the Stock Exchange. It is expected that both public and private customers would tend to give preference to contractors who have a public listing status with good reputation, transparent financial disclosures and regulatory supervision. The Listing will enhance our corporate profile and our credibility with our business stakeholders and different customers including contractors, developers and government authorities. Our Directors therefore believe that the Listing of our Company is the key strategy for us to enhance our level of competitiveness among other customers and other business stakeholders.

Moreover, we believe that the Listing will strengthen our internal control and corporate governance practices, which in turn would increase our customers' and suppliers' confidence on us and attract potential customers.

- (ii) *Enhance market status amongst customers, suppliers, subcontractors and employees*

Our Directors believe that a listing status will enhance our credibility with our subcontractors, suppliers and customers and thus, enhance our level of competitiveness in competing for and carrying out foundation works. With such status, our Group can be differentiated from other competitors during the tendering process, enhancing our success rate in competing for sizable and profitable projects.

Our Directors expect that both public and private customers would tend to give preference to contractors who have a public listing status with good reputation, transparent financial disclosures and regulatory supervision. Our Directors therefore believe that the Listing of our Company is the key strategy for us to enhance our level of competitiveness among other customers and other business stakeholders. In the tendering forms, our Company is usually required to fill in whether we are a listing company or not.

To effectively implement our strategies involving staff trainings and acquisition of new machineries and equipment, our Directors further believe that as a listed company, we will be able to retain our existing staff more effectively, at both operational and administrative level.

We believe that our staff will feel more stable and secured about their employment with us, rather than joining a private company, hence strengthening their morale at work. In turn, an integrated workforce will improve the quality of our services and efficiency of our day-to-day operations to the benefit of our long-term development and competitiveness.

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## FUTURE PLANS AND USE OF PROCEEDS

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*(iii) Ease of raising funds in capital market for future business development*

Whilst our Group was able to expand our business using internally generated funds and bank borrowings during the Track Record Period and had been able to repay bank loans when they fell due in the past, our Group still plans to seek equity or equity-linked financing as it would ease our cash flow instead of debt financing and finance lease from bank or financial institutions due to the following reasons:

- (a) debt financing from banks or financial institutions normally requires collaterals, such as cash deposit, properties and/or personal guarantee from our Group and/or our Controlling Shareholders in order to secure bank borrowing for our Group, which would increase our reliance on our Controlling Shareholders and negatively affect our liquidity of cash. On the other hand, our Directors consider that as a group of private companies and/or a subcontractor usually does not have a large amount of fixed assets as collateral, it would be difficult for our Group, without a listing status, to obtain bank borrowings at a competitive rate without guarantee to be provided by our Controlling Shareholders. Taking into account the fact that (i) our Group's cash outflows exposure at the initial stage of each project; and (ii) it is necessary to maintain a disciplined financial strategy without exposing our Group to aggressive gearing in order to achieve sustainable growth in the long run, our Directors consider that the net proceeds from the Share Offer are necessary for the implementation of our business plans as opposed to debt financing given it is not permanent in nature and the interest expenses would impose additional cash flow burden to our Group;
- (b) heavy reliance on debt financing would subject our Group to the inherent risks of higher interest rate and finance costs. We estimate that the interest expenses from finance leases on normal commercial terms will amount to approximately HK\$334,000 and HK\$67,000, respectively, for the two years ending 31 March 2019. Our Group's financial performance and liquidity may be negatively affected due to principal and interest payments if we proceed with debt financing to fund our business expansion; and
- (c) raising fund by way of finance lease is not practicable to our Group as we lack the machineries and equipment which are acceptable for the finance lease.

The Listing, which allows us to access the capital market for fund raising, will assist our future business development and strengthen our competitiveness; following such, we will be able to use secondary fund raising after listing for our future expansion plans and when necessary, through the issuance of equity and/or debt securities. While we will continue to obtain certain amount of banking facilities after Listing alongside with equity financing, our Directors believe that we would be in a better position to negotiate with banks and financial institutions if we are a listed

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## FUTURE PLANS AND USE OF PROCEEDS

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company with enlarged capital structure. By strengthening our financial position through fund-raising, we will also have more bargaining power when negotiating terms with our suppliers and subcontractors. Hence, our Group will then be able to maintain a lower level of gearing ratio, which will benefit our Groups and Shareholders as a whole, and enhance our capital structure. Our Directors therefore believe that the use of equity financing would avoid the risk of high interest rate generally associated with debt financing which exposes our Group to increasing financial costs in the future.

*(iv) Diversification of shareholder base and have more liquidity in trading of Shares*

Our Directors believe that the Listing will enhance the liquidity of the Shares which will be freely traded in the Stock Exchange when compared to the limited liquidity of the shares that are privately held before the Listing. Hence, our Directors consider that the Listing will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the trading of our Shares.



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## UNDERWRITING

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### UNDERWRITERS

#### Public Offer Underwriter and Placing Underwriter

Head & Shoulders Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### 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 become 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 Sole Bookrunner (for itself and on behalf of the Public Offer Underwriter) 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 occur prior to the Termination Time:

1. There comes to the notice of the Sole 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 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

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## UNDERWRITING

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- considered, in the reasonable opinion of the Sole 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 Sole 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 Sole Bookrunner to be material in the context of the Public Offer; or
  - (d) any matter which, had 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 Sole 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 our 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 Sole 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 PRC, 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

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## UNDERWRITING

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- (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 PRC, 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
- (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 otherwise; 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 PRC, 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) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the U.S. or by the European Union (or any member thereof) on Hong Kong or the PRC; or
- (h) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or
- (i) 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 Sole 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.

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## UNDERWRITING

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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.

### UNDERTAKINGS TO THE STOCK EXCHANGE UNDER THE LISTING RULES

#### **By us**

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances provided under Rule 10.08(1) to (5) of the Listing Rules or pursuant to the Share Offer, the Capitalisation Issue, the exercise of the Adjustment Options and the grant of options under the Share Option Scheme as described and contained in this prospectus.

#### **By our Controlling Shareholders**

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company, respectively, that it/he/she shall not and shall procure that the relevant registered shareholder(s) shall not, save as pursuant to the Share Offer, Adjustment Options or Stock Borrowing Agreement or otherwise permitted under the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its/his/her shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it/he/she is shown by this prospectus to be the beneficial owners; or
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be controlling shareholders (as defined in the Listing Rules) on a collective basis.

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## UNDERWRITING

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Each of the Controlling Shareholders has also undertaken to the Stock Exchange and our Company, respectively, that within the period commencing on the date by reference to which disclosure of its/his/her shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will:

- (a) when it/he/she pledges or charges any Shares beneficially owned by it/him/her in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

### **UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT**

Pursuant to the Public Offer Underwriting Agreement, our Company had undertaken to each of the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager and the Public Offer Underwriter that, except pursuant to the Share Offer (including pursuant to the Adjustment Options), 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 Sole Bookrunner (on behalf of the Public Offer Underwriter), 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) repurchase Shares or other securities of our Company or 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**”).

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## UNDERWRITING

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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 Sole Bookrunner, our Company, the Sole Sponsor and the Public Offer Underwriter that save as pursuant to the Stock Borrowing Agreement, during the First Six-month Period, it/he/she shall not, and shall procure that the relevant registered holder(s) and its/his/her associates and companies controlled by it/he/she and any nominee or trustee holding in trust for it/he/she shall not, without the prior written consent of the Sole Bookrunner unless as a result of any exercise of the Adjustment Options 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 or she 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
- (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 Sole Bookrunner, our Company, the Sole Sponsor and the Public Offer Underwriter that it/he/she shall not, and shall procure that the relevant registered holder(s) and its/his/her associates or companies controlled by it/him/her and any nominee or trustee holding in trust for it or him or her 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/him/her or any of its or his or her associates or companies controlled by it or him or her or any nominee or trustee holding in trust for it or him or her if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or he or she would cease to be a Controlling Shareholder or would together with the other Controlling Shareholders cease to be, or be regarded as, Controlling Shareholders on a collective basis.

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## UNDERWRITING

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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 her 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. The relevant Controlling Shareholders shall, and shall procure that its/his/her associates and companies controlled by any nominees or trustees holding in trust for it/him/her shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/him/her or by the registered holder controlled by it/him/her of any Shares.

Each of the Controlling Shareholders has further undertaken to each of the Sole Bookrunner, our Company, the Sole Sponsor and the Public Offer Underwriter that within the first twelve months from the Listing Date, it or he or she will:

- (i) when it or he or she pledges or charges any securities or interests in the securities of our Company beneficially owned by it or him or her directly or indirectly, immediately inform our Company and the Sole 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 it or he or she 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 Sole 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 the 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 Underwriter, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriter shall severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Underwriting Arrangements and Expenses – Public Offer – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer



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## **UNDERWRITING**

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Underwriting Agreement as described in the paragraph “Underwriting Arrangements and Expenses – Public Offer – Undertakings Pursuant to the Public Offer Underwriting Agreement” in this section.

Our Company will grant to the Sole Bookrunner (for and on behalf of the Placing Underwriter) the Adjustment Options, exercisable by the Sole Bookrunner at any time within 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 45,000,000 additional Shares representing 15% of the number of Offer Shares initially offered under the Share Offer, at the Offer Price under the Placing to cover, among other things, over-allocations (if any) in the Placing, if any, and/or the obligations of the Sole Bookrunner (for and on behalf of the Placing Underwriter) to return Shares which it may have borrowed under the Stock Borrowing Agreement.

### **COMMISSIONS AND EXPENSES**

The Underwriters will receive a gross underwriting commission at the rate of 6% of the aggregate Offer Price payable for the Offer Shares (including shares to be issued pursuant to the Adjustment Options), 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\$31.0 million in aggregate (based on an Offer Price of HK\$0.32 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.30 per Offer Share to HK\$0.34 per Offer Share and the assumption that none of the Adjustment Options is exercised) and is paid or payable by our Company.

### **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 SOLE SPONSOR**

Dakin Capital, being the Sole 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 Public Offer, 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.



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer comprises (subject to reallocation and the Adjustment Options):

- (a) the Public Offer of 30,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described under the paragraph headed “The Public Offer” below; and
- (b) the Placing of 270,000,000 Shares (subject to reallocation and the Adjustment Options as mentioned below) which will conditionally be placed with selected professional, institutional and other investors under the Placing.

Investors may apply for the Shares under the Public Offer or indicate an interest, if qualified to do so, for the 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 and professional investors. The Placing Underwriter is 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 Shares to be offered under the Public Offer and the Placing, respectively, may be subject to reallocation as described in the paragraph headed “The Public Offer – reallocation” below.

### THE PUBLIC OFFER

#### Number of Shares Initially Offered

We are initially offering 30,000,000 Shares at the Offer Price, representing 10% of the Shares initially available under the Share Offer (assuming that the Adjustment Options are not exercised), for subscription by the public in Hong Kong. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Public Offer will represent approximately 2.5% of our Company’s enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue (assuming that the Adjustment Options are not exercised).

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Share Offer” in this section.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### Allocation

The total number of Public Offer Shares available under the Public Offer will initially be divided equally into two pools for allocation purposes as follows:

- (i) Pool A: The Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares each with a total subscription amount (excluding brokerage fee, Stock Exchange trading fee and SFC transaction levy) of HK\$5 million or less.
- (ii) Pool B: The Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares each with a total subscription amount (excluding brokerage fee, Stock Exchange trading fee and SFC transaction levy) of more than HK\$5 million and up to the value of Pool B.

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 under-subscribed, the unsubscribed Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Allocation of 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.

Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 50% of the Public Offer Shares initially available for subscription under the Public Offer will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Public Offer Shares are not fully subscribed, the Sole Bookrunner (for itself and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing in such amount as the Sole Bookrunner (for itself and on behalf of the Underwriters) deems appropriate;
  - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times of the number of Offer Shares initially available under the Public Offer, then 30,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 60,000,000, representing 20% of the Offer Shares initially available under the Share Offer;
  - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available under the Public Offer, then 60,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 90,000,000, representing 30% of the Offer Shares initially available under the Share Offer;
  - (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available under the Public Offer, then 90,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 120,000,000, representing 40% of the Offer Shares initially available under the Share Offer; and
  - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available under the Public Offer, then 120,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 150,000,000, representing 50% of the Offer Shares initially available under the Share Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (b) Where the Placing Shares are not fully subscribed:
- (i) if the Public Offer Shares are not fully subscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and Underwriting Agreements; and
  - (ii) if the Public Offer Shares are fully subscribed irrespective of the number of times the number of Offer Shares initially available under the Public Offer, then up to 30,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 60,000,000, representing 20% of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (xx) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (yy) the Placing Shares are not fully subscribed and the Public Offer Shares are oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e.HK\$0.30 per Offer Share) stated in this prospectus.

In addition, the Sole Bookrunner may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 60,000,000 Offer Shares).

For reallocation of Offer Shares from the Placing to the Public Offer, the number of Offer Shares allocated to the Placing will correspondingly be reduced, and such additional Public Offer Shares will be reallocated to Pool A and Pool B in the Public Offer in such manner as the Sole Bookrunner deems appropriate.

In addition, the Sole Bookrunner may in its sole and absolute discretion 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 Sole Bookrunner.

### **THE PLACING**

#### **Number of Shares Initially Offered**

Subject to the reallocation as described above, the number of Shares to be initially offered under the Placing will be 270,000,000 Shares, representing 90% of the Offer Shares under the

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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Share Offer (assuming the Adjustment Options are not exercised). Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issued share capital immediately after the completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised).

### **Allocation**

Pursuant to the Placing, the Placing Shares will be conditionally placed on behalf of our Company by the Placing Underwriter or through selling agents appointed by them. Placing Shares will be selectively placed with certain professional and institutional investors and other investors who generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing is subject to the Public Offer being unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" below 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, and/or hold or sell, Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the Shareholders as a whole.

The Sole Bookrunner (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Sole Bookrunner so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

### **ADJUSTMENT OPTIONS**

In connection with the Share Offer, our Company will grant the Adjustment Options to the Sole Bookrunner (for itself and on behalf of the Placing Underwriter) under the Placing Underwriting Agreement.

#### **Offer Size Adjustment Option**

If the final Offer Price as agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) is less than HK\$0.334 and as a result, the size of the Share Offer is less than HK\$100 million, the Sole Bookrunner (for itself or on behalf of the Placing Underwriter) can only exercise the Offer Size Adjustment Option to cover over-allocations under the Placing. The Offer Size Adjustment Option can only be exercised prior to Listing, otherwise it will lapse. Pursuant to the Offer Size Adjustment Option, our Company may be required to

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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allot and issue up to an aggregate of 45,000,000 additional Placing Shares, representing 15% of the Offer Shares initially available under the Share Offer. These Shares will be sold or issued at the Offer Price.

For the avoidance of doubt, the Shares to be issued pursuant to the exercise of the Offer Size Adjustment Option would not be used for any purposes other than settlement of over-allocations in the Placing. Hence, it will not form part of the price stabilising actions. The Offer Size Adjustment Option would not be used for price stabilising purposes and is not subject to the Securities and Futures (Price Stabilizing) Rules under the SFO. No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Placing which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

Our Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.hcho.com.hk](http://www.hcho.com.hk).

If the Offer Size Adjustment Option is exercised in full, the additional 45,000,000 Shares and the 300,000,000 Shares initially offered in the Share Offer will represent approximately 3.61% and 24.10% of our Company's enlarged share capital respectively immediately after completion of the Share Offer and the exercise in full of the Offer Size Adjustment Option. The additional net proceeds received from the offer of the additional Shares allotted and issued upon exercise of the Offer Size Adjustment Option will be allocated in accordance with the allocations as disclosed in the section headed "Future plans and use of proceeds" in this prospectus.

### **Over-allotment Option**

If the final Offer Price as agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) is HK\$0.334 or above, the size of the Share Offer is not less than HK\$100 million. In such event, the Sole Bookrunner (for itself or on behalf of the Placing Underwriter) can exercise the Over-allotment Option, which will be exercisable at any time from the date of this prospectus to the 30th day from the last day for lodging applications under the Share Offer. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to an aggregate of 45,000,000 additional Shares, representing 15% of the Offer Shares initially available under the Share Offer. These Shares will be sold or issued at the Offer Price.

If the Over-allotment Option is exercised in full, the additional 45,000,000 Shares and the 300,000,000 Shares initially offered in the Share Offer will represent approximately 3.61% and 24.10% of our Company's enlarged share capital respectively immediately after completion of the Share Offer and the exercise in full of the Over-allotment Option.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### STOCK BORROWING AGREEMENT

The Stabilising Manager, or any person acting for it may choose to borrow 45,000,000 Shares from Oriental Castle, under a stock borrowing agreement (the “**Stock Borrowing Agreement**”), or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement 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 Oriental Castle 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 Oriental Castle 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 Oriental Castle 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, the Listing Rules and regulatory requirements; and
- no payment will be made to Oriental Castle 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, the 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 the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager 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



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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number of Shares that may be sold under the Over-allotment Option, namely, 45,000,000 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 Stabilizing) 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 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:

- the Stabilising Manager, 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 the Stabilising Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilising Manager 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, 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 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 Stabilizing) 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.



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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In connection with the Share Offer, the Sole Bookrunner may over-allocate up to and not more than an aggregate of 45,000,000 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, the Sole Bookrunner may borrow up to 45,000,000 Shares from Oriental Castle, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

All stabilising actions will be taken in accordance with the laws, rules and regulation in place in Hong Kong on stabilisation.

### PRICING AND ALLOCATION

#### Offer Price

The Offer Price will be not more than HK\$0.34 per Offer Share and is expected to be not less than HK\$0.30 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price is to be determined on the Price Determination Date and 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\$0.34 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\$3,434.26 for one board lot of 10,000 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\$0.34 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.

#### Determining the Offer Price

The Placing Underwriter is 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 the last day for lodging applications under the Public Offer.

The Offer Price is expected to be fixed by an agreement between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date,

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about 29 May 2018 and in any event, no later than 6:00 p.m. on 5 June 2018.

**If, for any reason, our Company and the Sole Bookrunner (on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 6:00 p.m. on 5 June 2018, the Share Offer will not proceed and will lapse.**

### **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 Sole Bookrunner.

Allocation of the Offer Shares pursuant to the Placing will be determined by the Sole 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 the 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 level of applications in the Public Offer and the basis of allocations of the Public Offer Shares are expected to be announced on our Company's website at [www.hcho.com.hk](http://www.hcho.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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, or by giving **electronic application instructions** to HKSCC or by applying online through the **HK eIPO White Form** Service Provider under the **HK eIPO White Form** service, will be made available through a variety of channels as described in the section headed "How to apply for the Public Offer Shares – 11. Publication of results" of this prospectus.

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

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### **UNDERWRITING**

The Public Offer is fully underwritten by the Public Offer Underwriter under the terms of the Public Offer Underwriting Agreement.

The Placing is fully underwritten by the Placing Underwriter under the terms of the Placing Underwriting Agreement.

These underwriting arrangements, and the Underwriting Agreements, are summarised in the section headed “Underwriting” in this prospectus.

### **CONDITIONS OF THE SHARE OFFER**

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional on:

- 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 to be issued pursuant to the Capitalisation Issue, and any Shares which may be issued upon the exercise of the Adjustment Options and the options which may be granted under the Share Option Scheme) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- the obligations of the Public Offer Underwriter under the Public Offer Underwriting Agreement and the obligations of the Placing Underwriter under the Placing Underwriting Agreement becoming and remaining 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 the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

In each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days 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 offering becoming unconditional and not having been terminated in accordance with their respective 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 be published by us on the Stock Exchange’s website and on our Company’s website on the next day following such lapse. In such eventuality, all application

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

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monies will be returned, without interest, on the terms set out in the subsection headed “How to apply for the Public Offer Shares – 14. Despatch/collection of Share Certificates and refund monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates will only become valid at 8:00 a.m. on 7 June 2018, provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting – Underwriting Arrangements and Expenses – Public Offer – Grounds for Termination” in this prospectus has not been exercised.

### **ADMISSION OF THE SHARES 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 Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into the Central Clearing and Settlement System, or CCASS.

### **DEALINGS IN THE SHARES**

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on 7 June 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on 7 June 2018.

The Shares will be traded in board lots of 10,000 Shares each and the stock code of the Shares will be 1757.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 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;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY FOR PUBLIC OFFER SHARES

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Sponsor, the Sole Bookrunner or the Sole Lead Manager may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of HK eIPO White Form service for the Public Offer Shares.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or the chief executive officer of our Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above;
- 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; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 23 May 2018 until 12:00 noon on Monday, 28 May 2018 from:

- (i) the following office of the Public Offer Underwriter:

**Head & Shoulders Securities Limited**

Room 2511, 25/F, Cosco Tower  
183 Queen's Road Central  
Hong Kong

- (ii) the following office of the Sole Sponsor:

Dakin Capital Limited  
Room 2701, Admiralty Centre  
Tower 1, 18 Harcourt Road  
Admiralty  
Hong Kong

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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(iii) or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

District	Branch Name	Address
Hong Kong Island	Admiralty Branch	Shop 1013–1014, 1/F, United Centre, 95 Queensway, Admiralty, Hong Kong
	Causeway Bay Branch	Shop A on G/F, 1/F, Hennessy Apartments, 488 & 490 Hennessy Road, Hong Kong
Kowloon	Jordan Branch	1/F, JD Mall, No. 233 Nathan Road, Jordan, Kowloon
	Kwun Tong Branch	Shop 5&6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong, Kowloon
New Territories	Sha Tsui Road Branch	Shop 4, G/F Chung On Building, 297–313 Sha Tsui Road, Tsuen Wan, New Territories
	Shatin Branch	Shop 22J, Level 3, Shatin Centre, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 23 May 2018 until 12:00 noon on 28 May 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker, who may have such Application Forms and this prospectus available.

### 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 "ICBC (Asia) Nominee Limited – Affluent Foundation Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Wednesday, 23 May 2018 – 9:00 a.m. to 5:00 p.m.**  
**Thursday, 24 May 2018 – 9:00 a.m. to 5:00 p.m.**  
**Friday, 25 May 2018 – 9:00 a.m. to 5:00 p.m.**  
**Saturday, 26 May 2018 – 9:00 a.m. to 1:00 p.m.**  
**Monday, 28 May 2018 – 9:00 a.m. to 12:00 noon**

The application lists will be opened from 11:45 a.m. to 12:00 noon on Monday, 28 May 2018, the last application day or such later time as described in "10. Effect of bad weather on the opening of the application lists" in this section.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) **undertake** to execute all relevant documents and instruct and authorise our Company and/or the Sole Bookrunner (or its 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 Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies 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 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 Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, 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;



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (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 Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;
- (xii) **represent, warrant and undertake** that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorise** 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 Public 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 are eligible 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 Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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(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 an agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply for the Public Offer Shares” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for Submitting Applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 23 May 2018 until 11:30 a.m. on 28 May 2018 and the latest time for completing full payment of application monies in respect of such applications will be at 12:00 noon on 28 May 2018 or such later time under the “10. Effect of bad weather on the opening of the application lists” in this section.

### **No Multiple Applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### **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 applicant 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).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service 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.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager 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 Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a 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;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- 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 giving **electronic application instructions** to apply for Public 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 Ordinance, 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 Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Wednesday, 23 May 2018</b>	<b>– 9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Thursday, 24 May 2018</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Friday, 25 May 2018</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Saturday, 26 May 2018</b>	<b>– 8:00 a.m. to 1:00 p.m.<sup>(1)</sup></b>
<b>Monday, 28 May 2018</b>	<b>– 8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

*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 23 May 2018 until 12:00 noon on 28 May 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on 28 May 2018, the last application day or such later time as described in the paragraph “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 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 Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day to make your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in 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 on 28 May 2018 or such later time under the paragraph “10. Effect of bad weather on the opening of the application lists” in this section.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company; or
- 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).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 10,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

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, please refer to the section headed “Structure and conditions of the Share Offer”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 28 May 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on 28 May 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 11. PUBLICATION OF RESULTS

We expect to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on 6 June 2018 on our Company's website at [www.hcho.com.hk](http://www.hcho.com.hk) 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 Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.hcho.com.hk](http://www.hcho.com.hk) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on 6 June 2018;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on 6 June 2018 to 12:00 midnight on 12 June 2018;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from 6 June 2018 to 11 June 2018 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from 6 June 2018 to 8 June 2018 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 Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Share Offer" 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.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

- (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a 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 announcement 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 we or our agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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(iii) If the allotment of Public Offer Shares is void:

The allotment of Public 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 us of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or are suspected of multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole 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 Public Offer Shares initially offered under the Public Offer.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.34 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Share Offer set out in the section headed “Structure and Conditions of the Share Offer – Conditions of the Share Offer” in this prospectus are not fulfilled 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 6 June 2018.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Form or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by a **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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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 6 June 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on 7 June 2018 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 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 6 June 2018 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 Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on 6 June 2018, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s).

If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on 6 June 2018, by ordinary post and at your own risk.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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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 6 June 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you are applying 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*

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "11. Publication of Results" above. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on 6 June 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### *(iii) If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on 6 June 2018, or such other date as notified by our Company as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on 6 June 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on 6 June 2018, 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 the paragraph "11. Publication of Results" in this section on 6 June 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 6 June 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on 6 June 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- 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 6 June 2018.
- No interest will be paid thereon.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements 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 the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purposes of incorporation in this prospectus.*



23 May 2018

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF AFFLUENT FOUNDATION HOLDINGS LIMITED AND DAKIN CAPITAL LIMITED**

**Introduction**

We report on the historical financial information of Affluent Foundation Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-46, which comprises the combined statements of financial position of the Group as at 31 March 2015, 2016 and 2017 and 30 November 2017 and the statement of financial position of the Company as at 30 November 2017, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows, for each of the years ended 31 March 2015, 2016 and 2017 and the eight months ended 30 November 2017 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-46 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 23 May 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1, respectively to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Report on Historical Financial Information in Investments Circulars" issued by the Hong Kong Institute of Certified Public

Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that give a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1, respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants’ report, a true and fair view of the Group’s financial position as at 31 March 2015, 2016 and 2017 and 30 November 2017, the financial position of the Company as at 30 November 2017 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1, respectively to the Historical Financial Information.

### **Review of stub period corresponding financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the eight months ended 30 November 2016 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 respectively to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on

Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 respectively to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

*Dividends*

We refer to Note 10 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

*No historical financial statements for the Company*

No statutory financial statements have been prepared for the Company since its date of incorporation.

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

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Chan Tze Kit

Practising Certificate Number: P05707

## I. HISTORICAL FINANCIAL INFORMATION

**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

**Combined statements of profit or loss and other comprehensive income**

	<i>Notes</i>	Year ended 31 March			Eight months ended 30 November	
		2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
					(Unaudited)	
<b>Revenue</b>	5	259,403	502,053	396,880	201,402	206,115
Direct costs		<u>(232,619)</u>	<u>(472,922)</u>	<u>(356,375)</u>	<u>(181,833)</u>	<u>(181,577)</u>
<b>Gross profit</b>		26,784	29,131	40,505	19,569	24,538
Other income	6	1,083	5,692	4,224	4,168	4,281
Administrative expenses		(5,709)	(7,254)	(12,070)	(5,695)	(17,177)
Finance costs	7	<u>(794)</u>	<u>(1,003)</u>	<u>(1,209)</u>	<u>(754)</u>	<u>(507)</u>
<b>Profit before income tax</b>	8	21,364	26,566	31,450	17,288	11,135
Income tax expense	9	<u>(3,527)</u>	<u>(4,366)</u>	<u>(5,625)</u>	<u>(2,860)</u>	<u>(3,112)</u>
<b>Profit and total comprehensive income for the year/period</b>		<u>17,837</u>	<u>22,200</u>	<u>25,825</u>	<u>14,428</u>	<u>8,023</u>
<b>Earnings per share attributable to equity holders of the Company</b>						
Basic and diluted	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## Combined statements of financial position

		At 31 March		At 30 November	
		2015	2016	2017	2017
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	26,389	29,074	25,142	22,463
<b>Current assets</b>					
Trade and other receivables	14	47,929	58,763	86,936	68,191
Amounts due from customers for contract work	15	26,642	37,734	38,103	55,807
Cash and bank balances	16	8,970	4,093	25,268	6,144
		83,541	100,590	150,307	130,142
<b>Current liabilities</b>					
Trade and other payables	17	44,784	47,573	71,895	46,987
Bank borrowings	18	6,096	7,739	13,308	11,890
Obligations under finance leases	19	5,459	5,532	4,611	3,014
Amounts due to customers for contract work	15	6,346	493	1,483	4,025
Amount due to a director	20	21,684	14,400	8,553	4,209
Tax payable		3,709	5,443	2,967	4,778
		88,078	81,180	102,817	74,903
<b>Net current (liabilities)/assets</b>		(4,537)	19,410	47,490	55,239
<b>Total assets less current liabilities</b>		21,852	48,484	72,632	77,702
<b>Non-current liabilities</b>					
Obligations under finance leases	19	1,934	5,688	3,942	955
Deferred tax liabilities	21	2,408	3,086	3,155	3,189
		4,342	8,774	7,097	4,144
<b>Net assets</b>		17,510	39,710	65,535	73,558
<b>EQUITY</b>					
Share capital	22	–	–	–	–
Reserves	22	17,510	39,710	65,535	73,558
<b>Equity attributable to equity holders of the Company</b>		17,510	39,710	65,535	73,558

## Statement of financial position of the Company

		<b>At</b>
		<b>30 November</b>
		<b>2017</b>
	<i>Notes</i>	<i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>		
<b>Current assets</b>		
Prepayments		<u>3,317</u>
<b>Current liabilities</b>		
Amount due to a related company		<u>13,690</u>
<b>Net liabilities</b>		<u><u>(10,373)</u></u>
<b>EQUITY</b>		
Share capital	22	—*
Accumulated losses		<u>(10,373)</u>
<b>Capital deficiency</b>		<u><u>(10,373)</u></u>

\* Represented one share of HK\$0.01



## Combined statements of changes in equity

	Share capital <i>HK\$'000</i> <i>(Note 22)</i>	Capital reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2014	–	301	(628)	(327)
Profit and total comprehensive income for the year	–	–	17,837	17,837
Balance at 31 March 2015 and 1 April 2015	–	301	17,209	17,510
Profit and total comprehensive income for the year	–	–	22,200	22,200
Balance at 31 March 2016 and 1 April 2016	–	301	39,409	39,710
Profit and total comprehensive income for the year	–	–	25,825	25,825
Balance at 31 March 2017 and 1 April 2017	–	301	65,234	65,535
Profit and total comprehensive income for the period	–	–	8,023	8,023
Balance at 30 November 2017	–	301	73,257	73,558
Balance at 1 April 2016	–	301	39,409	39,710
Profit and total comprehensive income for the period	–	–	14,428	14,428
Balance at 30 November 2016 (unaudited)	–	301	53,837	54,138

## Combined statements of cash flows

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
				(Unaudited)	
<b>Cash flows from operating activities</b>					
Profit before income tax	21,364	26,566	31,450	17,288	11,135
Adjustments for:					
Depreciation	11,535	10,734	10,225	6,740	5,919
Gain on disposal of property, plant and equipment	(369)	(4,436)	(3,551)	(3,700)	(1,807)
Finance costs	794	1,003	1,209	754	507
	<u>33,324</u>	<u>33,867</u>	<u>39,333</u>	<u>21,082</u>	<u>15,754</u>
Operating profit before working capital changes	33,324	33,867	39,333	21,082	15,754
(Increase)/Decrease in trade and other receivables	(11,923)	(10,834)	(28,172)	(20,401)	18,745
(Increase)/Decrease in amounts due from customers for contract work	(11,967)	(11,092)	(369)	(5,103)	(17,704)
Increase/(Decrease) in trade and other payables	10,118	4,423	24,679	8,344	(24,908)
(Decrease)/Increase in amounts due to customers for contract work	(4,025)	(5,853)	990	4,175	2,542
Decrease in amount due to a director	(4,398)	(7,284)	(5,848)	(2,548)	(4,344)
	<u>11,129</u>	<u>3,227</u>	<u>30,613</u>	<u>5,549</u>	<u>(9,915)</u>
Cash generated from/(used in) operations	11,129	3,227	30,613	5,549	(9,915)
Income tax paid	(149)	(1,954)	(8,032)	(811)	(1,267)
	<u>10,980</u>	<u>1,273</u>	<u>22,581</u>	<u>4,738</u>	<u>(11,182)</u>
<i>Net cash from/(used in) operating activities</i>	10,980	1,273	22,581	4,738	(11,182)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(2,315)	(10,741)	(4,529)	(3,504)	(4,643)
Proceeds from disposal of property, plant and equipment	408	11,197	5,130	3,870	3,210
	<u>(1,907)</u>	<u>456</u>	<u>601</u>	<u>366</u>	<u>(1,433)</u>
<i>Net cash (used in)/from investing activities</i>	(1,907)	456	601	366	(1,433)

	Year ended 31 March			Eight months ended 30 November	
	2015	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cash flows from financing activities</b>					
Proceeds from borrowings	15,148	23,000	22,969	18,145	5,767
Repayment of borrowings	(13,052)	(21,357)	(17,400)	(13,136)	(7,185)
Repayment of finance lease liabilities	(7,086)	(7,246)	(6,367)	(4,533)	(4,584)
Interest paid	(794)	(1,003)	(1,209)	(754)	(507)
<i>Net cash used in financing activities</i>	<u>(5,784)</u>	<u>(6,606)</u>	<u>(2,007)</u>	<u>(278)</u>	<u>(6,509)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	3,289	(4,877)	21,175	4,826	(19,124)
Cash and cash equivalents at the beginning of year/period	<u>5,681</u>	<u>8,970</u>	<u>4,093</u>	<u>4,093</u>	<u>25,268</u>
<b>Cash and cash equivalents at the end of year/period</b> <i>(Note 16)</i>	<u><u>8,970</u></u>	<u><u>4,093</u></u>	<u><u>25,268</u></u>	<u><u>8,919</u></u>	<u><u>6,144</u></u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL INFORMATION AND BASIS OF PRESENTATION

#### 1.1 General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 2 June 2017. The addresses of the Company's registered office and principal place of business are set out in the section headed "Corporate Information" of the Prospectus.

The Company is an investment holding company. The Group is principally engaged as subcontractor in foundation works in Hong Kong.

The Company's immediate and ultimate holding company is Oriental Castle Group Limited, a company incorporated in the British Virgin Islands (the "BVI") and owned by Mr. Chan Siu Cheong ("Mr. Chan") and Ms. Chu Wai Ling ("Ms. Chu").

#### 1.2 Reorganisation

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, reorganisation and corporate structure – History and development" in the Prospectus, which was completed on 23 April 2018, the Company became the holding company of the companies now comprising the Group.

Upon the completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interest in the following subsidiaries:

Name of Company	Place of incorporation	Date of incorporation	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Principal activities
<b>Directly held by the Company</b>					
Affluent Century Investments Limited ("Affluent Century") (Note (a))	The BVI	16 March 2017	1 ordinary share	100%	Investment holding
<b>Indirectly held by the Company</b>					
Art Ventures Worldwide Limited ("Art Ventures") (Note (a))	The BVI	20 March 2017	2 ordinary shares	100%	Investment holding
Luxury Golden Worldwide Limited ("Luxury Golden") (Note (a))	The BVI	20 March 2017	2 ordinary shares	100%	Investment holding

Name of Company	Place of incorporation	Date of incorporation	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Principal activities
Hong Chang Construction Foundations (Holdings) Limited ("HCC Foundations") (Note (b))	Hong Kong	14 April 2009	1,000 ordinary shares	100%	Undertaking foundation works in Hong Kong
Hong Chang Construction Transportation Engineering Company Limited ("HCC Transportation") (Note (b))	Hong Kong	15 October 1996	100,000 ordinary shares	100%	Provision of equipment rental

- (a) No statutory financial statements have been prepared for Affluent Century, Art Ventures and Luxury Golden as they are newly incorporated and not subject to statutory audit requirements under relevant rules and regulations in the jurisdiction of incorporation.
- (b) The statutory financial statements for the year ended 31 March 2015 were audited by Lui and Cheng CPA Limited. The statutory financial statements for the years ended 31 March 2016 and 2017 were audited by Global Vision CPA Limited.

### 1.3 Basis of presentation

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 23 April 2018. The group entities and business were under the control of Mr. Chan and Ms. Chu throughout the Track Record Period. Accordingly, for the purpose of the preparation of the Historical Financial Information of the Group, the Company has been considered as the holding company of the companies and business now comprising the Group throughout the Track Record Period. The Group is under the common control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the Track Record Period, which include the financial performance, changes in equity and cash flows of the companies now comprising the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA 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 31 March 2015, 2016 and 2017 and 30 November 2017 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 as at those respective dates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below.

These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below.

The Historical Financial Information has been prepared under the historical cost basis. The Historical Financial Information is presented in Hong Kong dollars (“HK\$” or “HKD”), and all values are rounded to the nearest thousand (HK\$’000), except where otherwise indicated.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

### 2.2 Basis of consolidation and combination

The Historical Financial Information incorporates the financial information of the Company and all its subsidiaries made up to respective year end dates during the Track Record Period.

Subsidiaries are 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. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

### 2.3 Foreign currency translation

In the individual financial statements of the combined entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

## 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	15%
Plant and machinery	20%
Motor vehicles	25%
Leasehold improvements	Over the term of lease or 20%, whichever is shorter

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

## 2.5 Financial assets

The Group's accounting policies for financial assets are set out below.

Financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*Impairment of financial assets*

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- The disappearance of an active market for that financial asset because of financial difficulties.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than trade and retention receivables that are stated at amortised cost are written off against the corresponding assets directly. Where the recovery of trade and retention receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade and retention receivables is remote, the amount considered irrecoverable is written off against trade and retention receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

**2.6 Impairment of non-financial assets**

Property, plant and equipment are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are



discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

## **2.7 Construction contracts**

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in Note 2.13.

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the reporting date are recorded in the combined statements of financial position at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented as "Amounts due from customers for contract work" (an asset) or "Amounts due to customers for contract work" (a liability). Progress billings not yet paid by customers are included in the combined statements of financial position under "Trade and other receivables". Amounts received before the related work is performed are recorded under "Trade and other payables".

## **2.8 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

## **2.9 Financial liabilities**

The Group's financial liabilities include obligations under finance leases, bank borrowings, amount due to a director and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2.15).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

***Finance lease liabilities***

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 2.10).

***Bank borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

***Trade and other payables and amount due to a director***

Trade and other payables and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

**2.10 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

***Classification of assets leased to the Group***

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

***Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

***Operating lease charges as the lessee***

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the combined statements of profit or loss and other comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

*Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

**2.11 Provisions, contingent liabilities and contingent assets**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

**2.12 Share capital**

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) are deducted from share premium to the extent they are incremental cost directly attributable to the equity transaction.

**2.13 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. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

*(i) Contract revenue*

When the outcome of a construction contract can be estimated reliably, revenue from construction contract is recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work can be measured reliably. The stage of completion of a contract is generally established according to the progress certificate (by reference to the construction works certified by the customers or their agents) issued by the customer or its agent.

In practice, the Group makes application to the customer for progress payment normally on a monthly basis or upon the completion of the project. After examination by the customer or its agent, a payment certificate will be issued to the Group certifying the portion of works completed during the period

for which progress payment is applied, which normally takes around one month from the date of application, and therefore the stage of completion for the period is established by reference to the payment certificate issued to the Group.

However, progress certifications might not necessarily take place as at the financial year-end. In case where progress certifications do not take place as at the financial year-end or where the last progress certificate for a works contract during a financial year does not cover a period up to the financial year-end, the revenue for the period from the last progress certification up to the financial year-end is estimated based on the estimated stage of completion with reference to the actual amounts of works performed during such period as indicated by the relevant site records as well as the rates for the relevant works items as agreed between the customer and the Group.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer or the outcome of which can be estimated reliably by management and are capable of being reliably measured.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

*(ii) Interest income*

Interest income is recognised on an accrual basis using the effective interest method.

## **2.14 Employee benefits**

### *Retirement benefits*

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

### *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

## **2.15 Borrowing costs**

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

## 2.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**2.17 Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components for their review of the performance of those components.

**2.18 Related parties**

For the purposes of the Historical Financial Information, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
  - (i) has control or joint control over of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### 3. ADOPTION OF NEW AND AMENDED HKFRSs

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 April 2017 are consistently applied to the Group for the Track Record Period.

The Group have not early applied the following new and revised Standards, Amendments and Interpretations (“new and amended HKFRSs”) that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contract <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures <sup>4</sup>
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle <sup>2</sup>
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective date not yet determined

The directors anticipate that all the relevant new and amended HKFRSs will be adopted in the Group’s accounting policy for the first period beginning after the effective date of such standards. The Group is in the process of making an assessment of the impact of these new and amended HKFRSs upon initial application. Currently it has been considered that adoption of them is unlikely to have an impact on the Group’s results of operations and financial position, except for the following:

#### HKFRS 15 Revenue from contracts with customers

HKFRS 15 presents new requirements for the recognition of revenue, replacing HKAS 18 “Revenue”, HKAS 11 “Construction Contracts”, and several revenue-related Interpretations. HKFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- 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. For more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group have started to assess the impact of HKFRS 15 and expects to apply HKFRS 15, in accordance with modified retrospective approach under which the cumulative effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). When applying HKFRS 15, the directors consider that an output method will be used in measuring the work progress and the directors do not anticipate that the application of HKFRS 15 will have a material impact on the Group's Historical Financial Information but will result in more disclosures to be made in the financial statements.

The materials consumed by the Group include ready-mix concrete and steel product. The Group did not maintain any inventory during the Track Record Period mainly because the materials were usually delivered directly to the Group's project sites for immediate consumption on project-by-project basis. As such, the Group did not have significant amount of uninstalled materials as at the end of each reporting period. Thus, the financial impact of the uninstalled materials in the application of HKFRS 15 is considered as insignificant.

#### **HKFRS 9 Financial instrument**

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 and will replace HKAS 39 in its entirety. The new standard introduces changes to HKAS 39's guidance on the classification and measurement of financial assets. Under HKFRS 9, each financial asset is classified into one of three main classification categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. An entity may make an irrevocable election at initial recognition to present in other comprehensive income for the subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Most of the HKAS 39's requirements for financial liabilities were carried forward unchanged to HKFRS 9. The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, HKFRS 9 requires the amount of the change in fair value to changes in the entity's own credit risk to be presented in other comprehensive income, unless effect of changes in the entity's own credit risk would create or enlarge an accounting mismatch in profit or loss, in which case, all gains or losses on that liability are to be presented in profit or loss.

HKFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

HKFRS 9 also provides new guidance on the application of hedge accounting. The new hedge accounting models retain the three types of hedge accounting and the requirements of formal designation and documentation of hedge accounting relationships. The new hedge accounting requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assess hedge effectiveness.

The directors consider that the application of HKFRS 9 on 1 January 2018 does not have a significant impact on the Group's results and financial position.



**HKFRS 16 Leases**

HKFRS 16 “Leases” will replace HKAS 17 and three related interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. HKFRS 16 is effective from periods beginning on or after 1 January 2019. The directors are yet to fully assess the impact of HKFRS 16 and therefore is unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under HKFRS 16’s new definition;
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are on-off choices; and
- assessing their current disclosures for finance leases (Note 19) and operating leases (Note 23) as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions assessing the additional disclosures that will be required.

The management of the Group confirms the adoption of HKFRS 16 would not result in a significant impact on the Group’s financial position and performance. As at 30 November 2017, the operating lease commitments amounted to HK\$3,145,000 and which will be required to be recognised in the Historical Financial Information as right-of-use assets and lease liabilities if HKFRS 16 would have been applied.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**(a) Construction contracts**

As explained in Notes 2.7 and 2.13, revenue recognition on a project is dependent on management’s estimation of the total outcome of the construction contracts, with reference to the progress certificates issued by the customers and their agents. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs by comparing the budgeted amounts to the actual costs incurred.

Significant judgement is required in estimating the contract revenue, contract costs and variation work which may have an impact on percentage of completion of the construction contracts and the corresponding profit taken.

Management exercised their judgements and estimated based on contract costs and revenues with reference to the latest available information, which includes detailed contract sum and works performed. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period. Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. In particular, the internal reviews focus on the timing and recognition of payments and the age and recoverability of any unagreed income from variations to the contract scope or claims. The impact of the changes in accounting estimates is then reflected in the ongoing results.

Details of the amounts due from/(to) customers for contract work are disclosed in Note 15.

**(b) Provision for impairment of trade receivables**

The Group determines the provision for impairment of trade receivables. This estimate is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

Details of the trade receivables are disclosed in Note 14.

**5. REVENUE**

The Group's principal activities are disclosed in Note 1.1 of Section II to the Historical Financial Information.

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
				(Unaudited)	
Contracting revenue	<u>259,403</u>	<u>502,053</u>	<u>396,880</u>	<u>201,402</u>	<u>206,115</u>

The chief operating decision-maker has been identified as the executive directors of the Company. The directors regard the Group's business of foundation works as a single operating segment and review the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
				(Unaudited)	
Customer A	124,498	279,489	N/A*	N/A*	22,645
Customer B	37,825	79,459	61,676	49,656	40,421
Customer C	37,751	N/A*	N/A*	N/A*	N/A*
Customer D	27,334	N/A*	N/A*	N/A*	N/A*
Customer E	N/A*	91,547	N/A*	N/A*	N/A*
Customer G	–	–	103,081	43,500	71,478
Customer H	–	–	99,734	25,904	21,191
Customer I	–	–	N/A*	29,518	N/A*

\* The corresponding revenue does not contribute over 10% of total revenue of the Group.

## 6. OTHER INCOME

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Gain on disposal of property, plant and equipment	369	4,436	3,551	3,700	1,807
Machinery rental income	473	1,055	388	270	2,406
Sundry income	241	201	285	198	68
	<u>1,083</u>	<u>5,692</u>	<u>4,224</u>	<u>4,168</u>	<u>4,281</u>

## 7. FINANCE COSTS

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Bank loans interest wholly repayable within five years	243	402	537	266	223
Finance charge on obligations under finance leases	551	601	672	488	284
	<u>794</u>	<u>1,003</u>	<u>1,209</u>	<u>754</u>	<u>507</u>

## 8. PROFIT BEFORE INCOME TAX

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit before income tax is stated after charging:					
(a) Staff costs (including directors' remuneration (Note 12(a))) (note (i))					
– Salaries, wages and other benefits	75,195	110,655	65,281	42,416	41,296
– Contributions to defined contribution retirement plans	2,573	3,805	2,239	1,444	1,394
	<u>77,768</u>	<u>114,460</u>	<u>67,520</u>	<u>43,860</u>	<u>42,690</u>

	Year ended 31 March			Eight months ended 30 November	
	2015	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
(b) Other items					
Depreciation, included in:					
Direct costs					
– Owned assets	7,190	6,048	5,134	3,128	3,012
– Leased assets	2,648	3,141	3,420	2,517	1,872
Administrative expenses					
– Owned assets	976	766	585	394	366
– Leased assets	721	779	1,086	701	669
	<u>11,535</u>	<u>10,734</u>	<u>10,225</u>	<u>6,740</u>	<u>5,919</u>
Subcontracting charges (included in direct costs)	18,622	53,119	75,271	36,223	21,899
Auditors' remuneration	50	80	80	–	88
Operating lease charges in respect of premises	1,426	2,437	2,800	1,829	1,204
Listing expenses	–	–	2,713	–	7,614
	<u>–</u>	<u>–</u>	<u>2,713</u>	<u>–</u>	<u>7,614</u>

Note:

(i) Staff costs (including directors' remuneration)

	Year ended 31 March			Eight months ended 30 November	
	2015	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Direct costs	76,172	112,546	64,074	42,154	37,697
Administrative expenses	1,596	1,914	3,446	1,706	4,993
	<u>77,768</u>	<u>114,460</u>	<u>67,520</u>	<u>43,860</u>	<u>42,690</u>

**9. INCOME TAX EXPENSE**

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the respective years during the Track Record Period.

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000
Provision for Hong Kong Profits Tax					
– Current tax	3,630	3,708	5,576	2,331	3,078
– Statutory tax concession	–	(20)	(20)	–	–
	<u>3,630</u>	<u>3,688</u>	<u>5,556</u>	<u>2,331</u>	<u>3,078</u>
Deferred tax ( <i>Note 21</i> )	(103)	678	69	529	34
	<u>3,527</u>	<u>4,366</u>	<u>5,625</u>	<u>2,860</u>	<u>3,112</u>

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000
Profit before income tax	<u>21,364</u>	<u>26,566</u>	<u>31,450</u>	<u>17,288</u>	<u>11,135</u>
Tax at Hong Kong Profits Tax rate of 16.5%	3,525	4,383	5,189	2,852	1,837
Tax effect of non-deductible expenses	2	3	456	8	1,275
Statutory tax concession	–	(20)	(20)	–	–
Income tax expense	<u>3,527</u>	<u>4,366</u>	<u>5,625</u>	<u>2,860</u>	<u>3,112</u>

**10. DIVIDENDS**

No dividends have been paid or declared by the Group during the Track Record Period.

**11. EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion for the purpose of this financial information is not meaningful due to the Reorganisation and the preparation of the results of the Group for the Track Record Period on a combined basis as disclosed in Notes 1.2 and 1.3 of Section II above.

## 12. DIRECTORS' EMOLUMENTS

## (a) Directors' emoluments

	Fees <i>HK\$'000</i>	Salaries, allowances, and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 March 2015</b>					
Executive directors:					
Mr. Chan Siu Cheong ( <i>note (i)</i> )	-	-	-	-	-
Mr. Sin Ka Pong ( <i>note (ii)</i> )	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>Year ended 31 March 2016</b>					
Executive directors:					
Mr. Chan Siu Cheong ( <i>note (i)</i> )	-	369	-	-	369
Mr. Sin Ka Pong ( <i>note (ii)</i> )	-	-	-	-	-
	<u>-</u>	<u>369</u>	<u>-</u>	<u>-</u>	<u>369</u>
	<u><u>-</u></u>	<u><u>369</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>369</u></u>
<b>Year ended 31 March 2017</b>					
Executive directors:					
Mr. Chan Siu Cheong ( <i>note (i)</i> )	-	614	-	-	614
Mr. Sin Ka Pong ( <i>note (ii)</i> )	-	294	-	6	300
	<u>-</u>	<u>908</u>	<u>-</u>	<u>6</u>	<u>914</u>
	<u><u>-</u></u>	<u><u>908</u></u>	<u><u>-</u></u>	<u><u>6</u></u>	<u><u>914</u></u>
<b>Eight months ended 30 November 2016 (unaudited)</b>					
Executive directors:					
Mr. Chan Siu Cheong ( <i>note (i)</i> )	-	234	-	-	234
Mr. Sin Ka Pong ( <i>note (ii)</i> )	-	-	-	-	-
	<u>-</u>	<u>234</u>	<u>-</u>	<u>-</u>	<u>234</u>
	<u><u>-</u></u>	<u><u>234</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>234</u></u>
<b>Eight months ended 30 November 2017</b>					
Executive directors:					
Mr. Chan Siu Cheong ( <i>note (i)</i> )	-	81	-	-	81
Mr. Sin Ka Pong ( <i>note (ii)</i> )	-	668	-	12	680
	<u>-</u>	<u>749</u>	<u>-</u>	<u>12</u>	<u>761</u>
	<u><u>-</u></u>	<u><u>749</u></u>	<u><u>-</u></u>	<u><u>12</u></u>	<u><u>761</u></u>

- (i) Mr. Chan Siu Cheong was appointed as an executive director of the Company on 2 June 2017.
- (ii) Mr. Sin Ka Pong was appointed as an executive director of the Company on 2 June 2017.
- (iii) The emoluments shown above represent emoluments received by the directors in their capacity as a/an director/employee of the companies comprising the Group during the Track Record Period.
- (iv) The independent non-executive directors, Mr. Ho Chi Wai, Mr. Cheung Kwok Yan Wilfred and Mr. Lau Leong Ho were appointed as directors of the Company on 13 May 2018. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any directors' remuneration in the capacity of independent non-executive directors.

**(b) Five highest paid individuals**

For the years ended 31 March 2015, 2016 and 2017 and eight months ended 30 November 2017, the five individuals whose emoluments were the highest in the Group have not included any directors.

Details of the emoluments of the five highest paid individuals are as follows:

	Year ended 31 March			Eight months ended 30 November	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
Salaries, fee and allowances	2,750	3,122	2,957	1,719	2,187
Retirement scheme contributions	87	90	90	60	60
	<u>2,837</u>	<u>3,212</u>	<u>3,047</u>	<u>1,779</u>	<u>2,247</u>

The emoluments fell within the following bands:

	Year ended 31 March			Eight months ended 30 November	
	2015	2016	2017	2016	2017
Emolument bands: HK\$nil – HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

For the years ended 31 March 2015, 2016 and 2017 and eight months ended 30 November 2017, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office as management of any members of the Group.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 April 2014</b>					
Cost	659	64,746	6,954	312	72,671
Accumulated depreciation	(369)	(44,514)	(5,005)	(62)	(49,950)
Net book amount	290	20,232	1,949	250	22,721
<b>Year ended 31 March 2015</b>					
Opening net book amount	290	20,232	1,949	250	22,721
Additions	212	13,796	1,234	–	15,242
Disposals	–	–	(39)	–	(39)
Depreciation	(105)	(10,216)	(1,152)	(62)	(11,535)
At 31 March 2015	397	23,812	1,992	188	26,389
<b>At 31 March 2015 and 1 April 2015</b>					
Cost	871	78,262	7,712	312	87,157
Accumulated depreciation	(474)	(54,450)	(5,720)	(124)	(60,768)
Net book amount	397	23,812	1,992	188	26,389
<b>Year ended 31 March 2016</b>					
Opening net book amount	397	23,812	1,992	188	26,389
Additions	33	17,710	2,437	–	20,180
Disposals	–	(6,643)	(118)	–	(6,761)
Depreciation	(97)	(9,634)	(941)	(62)	(10,734)
Net book amount	333	25,245	3,370	126	29,074
<b>At 31 March 2016 and 1 April 2016</b>					
Cost	904	78,076	8,530	312	87,822
Accumulated depreciation	(571)	(52,831)	(5,160)	(186)	(58,748)
Net book amount	333	25,245	3,370	126	29,074



	Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 March 2017</b>					
Opening net book amount	333	25,245	3,370	126	29,074
Additions	12	5,683	1,776	401	7,872
Disposals	–	(1,133)	(446)	–	(1,579)
Depreciation	(94)	(8,704)	(1,338)	(89)	(10,225)
Closing net book amount	251	21,091	3,362	438	25,142
<b>At 31 March 2017</b>					
Cost	904	61,910	8,465	713	71,992
Accumulated depreciation	(653)	(40,819)	(5,103)	(275)	(46,850)
Net book amount	<u>251</u>	<u>21,091</u>	<u>3,362</u>	<u>438</u>	<u>25,142</u>
<b>Eight months ended 30 November 2017</b>					
Opening net book amount	251	21,091	3,362	438	25,142
Additions	190	4,143	310	–	4,643
Disposals	–	(1,403)	–	–	(1,403)
Depreciation	(72)	(4,944)	(809)	(94)	(5,919)
Closing net book amount	369	18,887	2,863	344	22,463
<b>At 30 November 2017</b>					
Cost	1,094	60,745	8,255	713	70,807
Accumulated depreciation	(725)	(41,858)	(5,392)	(369)	(48,344)
Net book amount	<u>369</u>	<u>18,887</u>	<u>2,863</u>	<u>344</u>	<u>22,463</u>

As at 31 March 2015, 2016 and 2017 and 30 November 2017, the Group's plant and machinery and motor vehicles of HK\$11,242,000, HK\$13,855,000, HK\$12,296,000 and HK\$6,375,000 are held under finance leases (Note 19).

## 14. TRADE AND OTHER RECEIVABLES

	At 31 March			At
	2015	2016	2017	30 November
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
Trade receivables	23,009	27,325	56,257	21,965
Retention receivables	22,109	25,722	18,900	24,964
Other receivables and prepayments	2,279	4,700	10,554	20,071
Utility and other deposits	532	1,016	1,225	1,191
	<u>47,929</u>	<u>58,763</u>	<u>86,936</u>	<u>68,191</u>

The directors of the Group consider that the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

**Trade receivables**

The Group usually provides customers with a credit term of 30 to 45 days. For the settlement of trade receivables from provision of construction services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management.

Based on the invoice dates, the ageing analysis of the trade receivables, net of provision for impairment, was as follows:

	At 31 March			At
	2015	2016	2017	30 November
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
0–30 days	16,426	10,511	42,513	7,440
31–60 days	6,416	11,963	8,783	2,756
61–90 days	127	4,251	4,684	1,154
Over 90 days	40	600	277	10,615
	<u>23,009</u>	<u>27,325</u>	<u>56,257</u>	<u>21,965</u>

At each reporting date, the Group reviewed trade receivables for evidence of impairment on both an individual and collective basis. Based on this assessment, no provision for impairment has been recognised at 31 March 2015, 2016 and 2017 and 30 November 2017.

Ageing of trade receivables which are past due but not impaired were as follows:

	At 31 March		At 30 November	
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	15,227	10,114	42,513	6,428
1–30 days past due	7,615	12,360	8,783	3,768
31–60 days past due	127	4,251	4,684	1,154
61–90 days past due	40	536	–	3,643
Over 90 days past due	–	64	277	6,972
	<u>23,009</u>	<u>27,325</u>	<u>56,257</u>	<u>21,965</u>

Trade receivables which were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

#### Retention receivables

Retention receivables represents certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

Retention receivables are interest-free and repayable approximately one year after the expiry of the maintenance period of construction projects. No material amounts in relation to retention receivables were past due at 31 March 2015, 2016 and 2017 and 30 November 2017.

#### Other receivables

No amounts in relation to other receivables were past due at 31 March 2015, 2016 and 2017 and 30 November 2017.

## 15. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	At 31 March		At 30 November	
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract costs incurred plus recognised profits less recognised losses	367,151	789,379	422,741	573,128
Less: progress billings	(346,855)	(752,138)	(386,121)	(521,346)
Contract work-in-progress	<u>20,296</u>	<u>37,241</u>	<u>36,620</u>	<u>51,782</u>
Analysed for reporting purposes as:				
Amounts due from customers for contract work	26,642	37,734	38,103	55,807
Amounts due to customers for contract work	(6,346)	(493)	(1,483)	(4,025)
	<u>20,296</u>	<u>37,241</u>	<u>36,620</u>	<u>51,782</u>

The gross amounts due from/(to) customers for contract work are expected to be recovered/settled within one year.

## 16. CASH AND BANK BALANCES

	At 31 March		At 30 November	
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at banks	<u>8,970</u>	<u>4,093</u>	<u>25,268</u>	<u>6,144</u>

*Note:* Cash at banks earns interest at floating rates based on daily bank deposit rates.

## 17. TRADE AND OTHER PAYABLES

	At 31 March		At 30 November	
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables ( <i>note (a)</i> )	20,247	26,011	49,434	26,071
Retention payables	161	2,552	4,022	5,079
Accruals and other payables	24,376	19,010	18,439	15,837
	<u>44,784</u>	<u>47,573</u>	<u>71,895</u>	<u>46,987</u>

*Notes:*

- (a) The Group is usually granted by suppliers with a credit term of 30 days.

The ageing analysis of trade payables based on the invoice date is as follows:

	At 31 March		At 30 November	
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0–30 days	8,161	9,735	18,738	2,031
31–60 days	5,436	3,823	11,783	2,949
61–90 days	3,679	1,582	7,189	3,935
Over 90 days	2,971	10,871	11,724	17,156
	<u>20,247</u>	<u>26,011</u>	<u>49,434</u>	<u>26,071</u>

- (b) All amounts are short-term and hence, the carrying values of the Group's trade payables and accruals and other payables are considered to be a reasonable approximation of fair value.

## 18. BANK BORROWINGS

At 31 March 2015, 2016 and 2017 and 30 November 2017, the bank loans were repayable as follows:

	At 31 March			At
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
<b>Bank loans shown under current liabilities</b>	6,096	7,739	13,308	11,890
<b>Carrying amount based on scheduled repayment date repayable:</b>				
Within one year or on demand	6,096	6,647	9,306	10,639
More than one year, but not exceeding two years	–	680	4,002	1,251
More than two years, but not exceeding five years	–	412	–	–
	<u>6,096</u>	<u>7,739</u>	<u>13,308</u>	<u>11,890</u>

The bank loans were classified as follows:

	At 31 March			At
	2015	2016	2017	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Secured bank loans	–	–	13,308	11,890
Unsecured bank loans	6,096	7,739	–	–
	<u>6,096</u>	<u>7,739</u>	<u>13,308</u>	<u>11,890</u>

- (a) As at 31 March 2015, 2016 and 2017 and 30 November 2017, the bank loans are interest-bearing at 4.0% to 5.0%, 4.0% to 5.0%, 2.2% to 5.5% and 2.2% to 5.0% per annum respectively.
- (b) As at 31 March 2015 and 2016, the banking facilities of the Group, of which HK\$6,096,000 and HK\$7,739,000 were utilised respectively, were guaranteed by:
- (1) Personal guarantee given by Mr. Chan; and
  - (2) Cross corporate guarantee given between HCC Foundations and HCC Transportation.
- (c) As at 31 March 2017 and 30 November 2017, the banking facilities of the Group, of which HK\$13,308,000 and HK\$11,890,000 were utilised for bank borrowings respectively, and HK\$nil and HK\$5,744,000 were utilised for surety bonds given by a bank in favour of a customer of the Group, were secured by:
- (1) Personal guarantee given by Mr. Chan;
  - (2) Cross corporate guarantee given between HCC Foundations and HCC Transportation; and
  - (3) All monies legal charge over the property with Mr. Chan as the mortgagor.

- (d) The surety bonds were given as security for the due performance and observance of the Group's obligation under the contracts entered into between the Group and the customer. If the Group fails to provide the satisfactory performance to the customer to whom surety bonds have been given, such customer may demand the bank to pay to it the sum or sums stipulated in such demand. The Group will then become liable to compensate such bank accordingly. The surety bonds will be released upon completion of the contract work.
- (e) Bank loans contain a repayment on demand clause and are therefore classified as current liabilities. None of the portion of bank loans due from repayment after one year is expected to be settled within one year.

#### 19. OBLIGATIONS UNDER FINANCE LEASES

The analysis of the Group's obligations under finance leases is as follows:

	<b>At 31 March</b>			<b>At</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 November</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2017</b>
				<i>HK\$'000</i>
Total minimum lease payments:				
Due within one year	5,867	6,102	4,949	3,123
Due in the second to fifth year	2,102	5,983	4,042	965
	<u>7,969</u>	<u>12,085</u>	<u>8,991</u>	<u>4,088</u>
Future finance charges	(576)	(865)	(438)	(119)
	<u>7,393</u>	<u>11,220</u>	<u>8,553</u>	<u>3,969</u>
Present value of lease obligations	<u>7,393</u>	<u>11,220</u>	<u>8,553</u>	<u>3,969</u>
	<b>At 31 March</b>			<b>At</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 November</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2017</b>
				<i>HK\$'000</i>
Present value of minimum lease payment:				
Due within one year	5,459	5,532	4,611	3,014
Due in the second to fifth year	1,934	5,688	3,942	955
	<u>7,393</u>	<u>11,220</u>	<u>8,553</u>	<u>3,969</u>
Less: Portion due within one year included under current liabilities	(5,459)	(5,532)	(4,611)	(3,014)
	<u>1,934</u>	<u>5,688</u>	<u>3,942</u>	<u>955</u>
Portion due after one year included under non-current liabilities	<u>1,934</u>	<u>5,688</u>	<u>3,942</u>	<u>955</u>

The Group has entered into finance leases for plant and machinery and motor vehicles. These lease periods are for 1 to 3 years. At the end of the lease term, the Group has the option to purchase the leased assets at a price that is expected to be sufficiently lower than the fair value of the leased assets at the end of the lease. None of the leases including contingent rentals. The effective interest rate on these finance leases was 5.2% to 10.2%, 4.3% to 10.2%, 3.6% to 10.2% and 3.6% to 6.6% for the year ended 31 March 2015, 2016 and 2017 and 30 November 2017 respectively.

Obligations under finance leases are effectively secured by the underlying assets at the rights to the leased assets would be converted to the lessor in the event of default by repayment by the Group.

**20. AMOUNT DUE TO A DIRECTOR**

Particulars of amount due to a director as follows:

	At 31 March			At
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	30 November 2017 HK\$'000
Mr. Chan	21,684	14,400	8,553	4,209

The amount due to a director is non-trade in nature. The amount due is unsecured, non-interest bearing and repayable on demand.

**21. DEFERRED TAXATION**

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% in Hong Kong.

The movement in deferred tax (assets)/liabilities and recognised in the combined statements of the financial position during the Track Record Period are as follows:

	Tax loss HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
As at 1 April 2014	–	2,511	2,511
(Credited)/Charged to profit or loss ( <i>Note 9</i> )	(200)	97	(103)
As at 31 March 2015 and 1 April 2015	(200)	2,608	2,408
(Credited)/Charged to profit or loss ( <i>Note 9</i> )	(290)	968	678
As at 31 March 2016 and 1 April 2016	(490)	3,576	3,086
(Credited)/Charged to profit or loss ( <i>Note 9</i> )	490	(421)	69
As at 31 March 2017 and 1 April 2017	–	3,155	3,155
Charged to profit or loss ( <i>Note 9</i> )	–	34	34
As at 30 November 2017	–	3,189	3,189

As at 31 March 2015, 2016 and 2017 and 30 November 2017, the Group did not have any material unrecognised deferred tax assets/liabilities.

**22. CAPITAL AND RESERVES****(a) Share capital**

	At 30 November 2017 HK\$'000
Share capital	–*



The Company was incorporated in Cayman Island as an exempted company under the Company Law of the Cayman with limited liability on 2 June 2017 with an initial authorised share capital of HK\$100,000 divided into 10,000,000 ordinary shares of HK\$0.01 each and 1 nil-paid share was issued thereafter.

\* Represented one share of HK\$0.01

**(b) Reserves**

*Capital reserve*

Capital reserve of the Group as at 31 March 2015, 2016 and 2017 and 30 November 2017 represents the aggregate paid up share capital of the subsidiaries.

The reconciliation between the opening and closing balances of each component of the Group's combined equity is set out in the combined statements of changes in equity.

**(c) Capital management**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the gearing ratio. For this purpose gearing ratio is calculated based on total borrowings divided by the total equity as at the end of each reporting period and multiplied by 100%. Total borrowings include bank borrowings, amount due to a director and obligations under finance leases. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The gearing ratio at the end of each of the Track Record Period:

	<b>2015</b>	<b>At 31 March</b>	<b>2017</b>	<b>At</b>
	<i>HK\$'000</i>	<i>2016</i>	<i>2017</i>	<b>30 November</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2017</b>
				<i>HK\$'000</i>
Total borrowings				
Bank borrowings	6,096	7,739	13,308	11,890
Obligations under finance leases	7,393	11,220	8,553	3,969
Amount due to a director	21,684	14,400	8,553	4,209
	<u>35,173</u>	<u>33,359</u>	<u>30,414</u>	<u>20,068</u>
Total equity	17,510	39,710	65,535	73,558
	<u>200.9%</u>	<u>84.0%</u>	<u>46.4%</u>	<u>27.3%</u>
Gearing ratio				

## 23. OPERATING LEASE COMMITMENTS

## As lessee

At the end of each of the Track Record Period, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	At 31 March			At
	2015	2016	2017	30 November
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
Within one year	791	2,144	1,293	1,530
In the second to fifth years	23	692	572	1,615
	<u>814</u>	<u>2,836</u>	<u>1,865</u>	<u>3,145</u>

The Group is the lessee in respect of premises under operating leases. The leases typically run for an initial period of one to three years. The leases do not include contingent rentals.

## 24. RELATED PARTY TRANSACTIONS

In addition to the balances and transactions detailed elsewhere in the Historical Financial Information, the Group had the following related party transactions during the Track Record Period.

## (a) Key management personnel remuneration

The emoluments of the directors and senior management of the Company, who represent the key management personnel during the Track Record Period are as follows:

	Year ended 31 March			Eight months ended	
	2015	2016	2017	30 November	2017
	HK\$'000	HK\$'000	HK\$'000	2016	2017
				HK\$'000	HK\$'000
				(Unaudited)	
Salaries, fee and allowances	309	716	1,351	447	1,418
Retirement benefit scheme contributions	15	17	23	11	36
	<u>324</u>	<u>733</u>	<u>1,374</u>	<u>458</u>	<u>1,454</u>

## (b) Material related party transactions

Name of related party	Nature	Year ended 31 March			Eight months ended	
		2015	2016	2017	30 November	2017
		HK\$'000	HK\$'000	HK\$'000	2016	2017
					HK\$'000	HK\$'000
					(Unaudited)	
Kam Lung Transport Co. (Note (a))	Transportation expense for construction waste disposal	19,299	26,260	9,233	7,046	6,148
Ms. Chan Sze Nga (Note (b))	Consultancy fee	270	622	1,056	342	–
Ms. Chan Sze Nga (Note (b))	Salary and allowances	–	–	–	–	560
Ms. Chan Mei Po (Note (c))	Salary and allowances	–	202	364	224	326
Mr. Tsang Ue Sum (Note (d))	Salary and allowances	–	–	112	–	224

*Notes:*

- (a) Kam Lung Transport Co. is a sole proprietorship established by Mr. Tsang Leung Lung. Mr. Tsang Leung Lung was a director of HCC Transportation during the Track Record Period.
- (b) Ms. Chan Sze Nga is the daughter of Mr. Chan and the niece of Mr. Tsang Leung Lung.
- (c) Ms. Chan Mei Po is the niece of Mr. Chan and Mr. Tsang Leung Lung.
- (d) Mr. Tsang Ue Sum is the nephew of Mr. Chan and the son of Mr. Tsang Leung Lung.

**25. CONTINGENT LIABILITIES**

As at end of each reporting period, the Group has been involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances, details of which are disclosed in the sections headed "Business – Litigation and potential claims" and "Business – Non-compliance" in the Prospectus. The directors are of the opinion that the claims and litigations are not expected to have a material impact on the Historical Financial Information, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the Historical Financial Information.

**26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT**

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks include interest rate risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the board of directors.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**26.1 Categories of financial assets and liabilities**

The carrying amounts presented in the combined statements of financial position relate to the following categories of financial assets and liabilities:

	<b>At 31 March</b>		<b>At 30 November</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>				
Loans and receivables:				
– Trade and other receivables	47,213	57,532	85,797	63,978
Cash and bank balances	8,970	4,093	25,268	5,750
	<u>56,183</u>	<u>61,625</u>	<u>111,065</u>	<u>69,728</u>

	At 31 March		At 30 November	
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financial liabilities</b>				
At amortised costs:				
– Trade and other payables	34,124	38,621	61,761	42,822
– Bank borrowings	6,096	7,739	13,308	11,890
– Obligations under finance leases	7,393	11,220	8,553	3,969
– Amount due to a director	21,684	14,400	8,553	4,209
	<u>69,297</u>	<u>71,980</u>	<u>92,175</u>	<u>62,890</u>

## 26.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings and obligations under finance leases bearing variables rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively and the exposure to the Group is considered immaterial.

The exposure to interest rate risk for the Group's bank balances is considered immaterial.

## 26.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at end of each reporting period as summarised in Note 26.1.

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.

At 31 March 2015, 2016 and 2017 and 30 November 2017, the Group has concentration of credit risk as 59% and 87%, 43% and 93%, 19% and 54% and 55% and 84% of the total trade receivables were due from the Group's largest customer and five largest customers respectively. The aggregate amounts of trade receivables from these customers amounted to HK\$13,655,000 and HK\$20,049,000, HK\$11,743,000 and HK\$25,445,000, HK\$10,637,000 and HK\$30,170,000 and HK\$11,973,000 and HK\$18,411,000 of the Group's total trade receivables at 31 March 2015, 2016 and 2017 and 30 November 2017 respectively.

## 26.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables, its financing obligations and bank borrowings, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities at end of each reporting period. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	<b>On demand or within one year HK\$'000</b>	<b>Over 1 year but within 5 years HK\$'000</b>	<b>Total undiscounted cash flow HK\$'000</b>	<b>Carrying amount HK\$'000</b>
<b>At 31 March 2015</b>				
Trade and other payables	34,124	–	34,124	34,124
Bank borrowings, secured (Note (a))	6,096	–	6,096	6,096
Obligations under finance leases	5,867	2,102	7,969	7,393
Amount due to a director	21,684	–	21,684	21,684
	<u>67,771</u>	<u>2,102</u>	<u>69,873</u>	<u>69,297</u>
<b>At 31 March 2016</b>				
Trade and other payables	38,621	–	38,621	38,621
Bank borrowings, secured (Note (a))	7,739	–	7,739	7,739
Obligations under finance leases	6,102	5,983	12,085	11,220
Amount due to a director	14,400	–	14,400	14,400
	<u>66,862</u>	<u>5,983</u>	<u>72,845</u>	<u>71,980</u>
<b>At 31 March 2017</b>				
Trade and other payables	61,761	–	61,761	61,761
Bank borrowings, secured (Note (a))	13,308	–	13,308	13,308
Obligations under finance leases	4,949	4,042	8,991	8,553
Amount due to a director	8,553	–	8,553	8,553
	<u>88,571</u>	<u>4,042</u>	<u>92,613</u>	<u>92,175</u>
<b>At 30 November 2017</b>				
Trade and other payables	42,822	–	42,822	42,822
Bank borrowings, secured (Note (a))	11,890	–	11,890	11,890
Obligations under finance leases	3,123	965	4,088	3,969
Amount due to a director	4,209	–	4,209	4,209
	<u>62,044</u>	<u>965</u>	<u>63,009</u>	<u>62,890</u>

*Note:*

- (a) Bank borrowings with a repayment on demand clause are included in the “On demand or within one year” time band in the above maturity analysis. As at 31 March 2015, 2016 and 2017 and 30 November 2017, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$6,154,000, HK\$7,957,000, HK\$13,577,000 and HK\$12,085,000 respectively. The maturity analysis of the term loans based on agreed scheduled repayments set out in the loan agreements is summarised as follows. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

***Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments***

	<b>On demand or within one year HK\$'000</b>	<b>Over 1 year but within 5 years HK\$'000</b>	<b>Total undiscounted cash flows HK\$'000</b>	<b>Carrying amount HK\$'000</b>
As at 31 March 2015	6,154	–	6,154	6,096
As at 31 March 2016	6,818	1,139	7,957	7,739
As at 31 March 2017	9,527	4,050	13,577	13,308
As at 30 November 2017	10,828	1,257	12,085	11,890

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular, its cash resources and other liquid assets that readily generate cash.

**26.5 Fair value measurement**

The carrying amounts of the Group’s financial assets and liabilities are not materially different from their fair values at the end of each of the Track Record Period due to their short maturities.

**27. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS**

**(a) Reconciliations of liabilities arising from financing activities**

Reconciliations of liabilities arising from financing activities for the years ended 31 March 2015, 2016 and 2017 and the eight months ended 30 November 2017, are as follows:

	<b>As at 1 April 2014 HK\$'000</b>	<b>Cash flows HK\$'000</b>	<b>Non-cash changes New leases HK\$'000</b>	<b>As at 31 March 2015 HK\$'000</b>
Bank borrowings	4,000	2,096	–	6,096
Obligation under finance lease	4,013	(7,086)	10,466	7,393
Total liabilities from financing activities	8,013	(4,990)	10,466	13,489

	As at 1 April 2015 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes New leases <i>HK\$'000</i>	As at 31 March 2016 <i>HK\$'000</i>
Bank borrowings	6,096	1,643	–	7,739
Obligation under finance lease	7,393	(7,246)	11,073	11,220
Total liabilities from financing activities	<u>13,489</u>	<u>(5,603)</u>	<u>11,073</u>	<u>18,959</u>
	As at 1 April 2016 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes New leases <i>HK\$'000</i>	As at 31 March 2017 <i>HK\$'000</i>
Bank borrowings	7,739	5,569	–	13,308
Obligation under finance lease	11,220	(6,367)	3,700	8,553
Total liabilities from financing activities	<u>18,959</u>	<u>(798)</u>	<u>3,700</u>	<u>21,861</u>
	As at 1 April 2016 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes New leases <i>HK\$'000</i>	As at 30 November 2016 <i>HK\$'000</i>
(Unaudited)				
Bank borrowings	7,739	5,009	–	12,748
Obligation under finance lease	11,220	(4,533)	3,700	10,387
Total liabilities from financing activities	<u>18,959</u>	<u>476</u>	<u>3,700</u>	<u>23,135</u>
	As at 1 April 2017 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes New leases <i>HK\$'000</i>	As at 30 November 2017 <i>HK\$'000</i>
Bank borrowings	13,308	(1,418)	–	11,890
Obligation under finance lease	8,553	(4,584)	–	3,969
Total liabilities from financing activities	<u>21,861</u>	<u>(6,002)</u>	<u>–</u>	<u>15,859</u>

**(b) Non-cash transaction**

For the years ended 31 March 2015, 2016 and 2017 and 30 November 2017, the Group entered into finance lease arrangements in respect of plant and machinery and motor vehicles with a total capital value at the inception of the leases of HK\$10,466,000, HK\$11,073,000, HK\$3,700,000 and HK\$nil which were directly settled by financial institutions to the sellers of plant and machinery and motor vehicles.

**III. EVENTS AFTER THE REPORTING PERIOD**

The following significant events took place subsequent to 30 November 2017:

The companies comprising the Group underwent and completed the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Group Reorganisation are set out in the section headed "History, reorganisation and Corporate Structure – History and development" in the Prospectus. Upon completion of the Group Reorganisation on 23 April 2018, the Company became the holding Company of the Group.

**IV. SUBSEQUENT FINANCIAL INFORMATION**

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 November 2017.



## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 2017 and the eight months ended 30 November 2017 prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I of this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I of this prospectus.

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED 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 equity holders of the Company as at 30 November 2017, as if the Share Offer had taken place on 30 November 2017.

The unaudited pro forma statement of 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 equity holders of the Company had the Share Offer been completed as at 30 November 2017 or at any future dates. It is prepared based on the audited combined net tangible assets of the Group attributable to equity holders of the Company as at 30 November 2017 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 equity holders of the Company as at 30 November 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company <i>HK\$'000</i>	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company per Share <i>HK\$</i> <i>(Note 3)</i>
Based on the Offer Price of HK\$0.30 per Share	73,558	69,687	143,245	0.12
Based on the Offer Price of HK\$0.34 per Share	73,558	80,967	154,525	0.13

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*Notes:*

- (1) The amount is calculated based on audited combined net assets of the Group attributable to equity holders of the Company as at 30 November 2017 amounting to approximately HK\$73,558,000, extracted from the Accountants' Report of the Group set out in Appendix I of this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on 300,000,000 Shares at the Offer Price of HK\$0.30 and HK\$0.34 per Share, being the low-end and high-end of the indicative range of the Offer Price respectively, after deduction of relevant estimated underwriting fees and other related expenses expected to be incurred by the Group subsequent to 30 November 2017.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is determined on the basis that 1,200,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Share Offer.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 November 2017 to reflect any trading results or other transactions of the Group entered into subsequent to 30 November 2017.

**B.    UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE**

The following unaudited pro forma estimated earnings per Share for the year ended 31 March 2018 has been prepared on the basis set out in the notes below for the purpose of illustrating the effect of the Share Offer, as if it had taken place on 1 April 2017. The unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Share Offer.

Estimated combined profit attributable to equity holders of the Company ( <i>Note 1</i> )	not less HK\$16.0 million
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Unaudited pro forma estimated earnings per Share ( <i>Note 2</i> )	not less than HKcents 1.33
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*Notes:*

- (1) The bases on which the above profit estimate for the year ended 31 March 2018 has been prepared are summarized in Appendix III to this prospectus. Our Directors have prepared the estimated combined profit attributable to equity holders of our Company for the year ended 31 March 2018 based on the audited combined results for the eight months ended 30 November 2017 and the unaudited combined results based on management accounts of our Group for four months ended 31 March 2018.
- (2) The calculation of the unaudited pro forma estimated earnings per Share for the year ended 31 March 2018 is based on the estimated combined profit attributable to equity holders of our Company for the year ended 31 March 2018 and on the assumptions that a total number of 1,200,000,000 Shares had been in issue throughout the year ended 31 March 2018, without taking into account of any Shares which (i) may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued upon exercise of the Adjustment Options; or (ii) any Shares may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

**C. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the assurance report received from Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*



23 May 2018

**TO THE DIRECTORS OF AFFLUENT FOUNDATION HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Affluent Foundation Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 30 November 2017 and the unaudited pro forma estimated earnings per share for the year ended 31 March 2018 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 23 May 2018 (the “**Prospectus**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Share Offer (as defined in the Prospectus) on the Group's financial position as at 30 November 2017 and the Group's estimated earnings per share for the year ended 31 March 2018 as if the Share Offer had taken place at 30 November 2017 and 1 April 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 March 2017 and the eight months ended 30 November 2017, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG7**”) 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 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 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 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 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 30 November 2017 or 1 April 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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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 unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

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.

### **Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

Chan Tze Kit

Practising Certificate Number: P05707

*Our estimate of the combined profit for the year ended 31 March 2018 is set out in the section headed “Financial information – Profit estimate for the year ended 31 March 2018” in this prospectus.*

**(A) PROFIT ESTIMATE FOR THE YEAR ENDED 31 MARCH 2018**

Our Directors have prepared the estimate of the combined profit of the Group for the year ended 31 March 2018 based on the audited combined results of the Group for the eight months ended 30 November 2017 and the unaudited combined results based on the management accounts of the Group for the four months ended 31 March 2018. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus.

**Profit estimate for the year ended 31 March 2018**

	<b>Estimate for the year ended 31 March 2018</b>
	not less than HK\$16.0
Estimated combined profit attributable to equity holders of the Company	million

*Note:* The estimated combined profit attributable to equity holders of the Company for year ended 31 March 2018 has taken into account of the expected listing expenses to be incurred during year ended 31 March 2018 of approximately HK\$12.6 million.

(B) LETTER FROM THE REPORTING ACCOUNTANTS



23 May 2018

The Board of Directors  
**Affluent Foundation Holdings Limited**  
Unit 903–905, 9/F  
The Octagon  
No. 6 Sha Tsui Road  
Tsuen Wan  
New Territories  
Hong Kong

**Dakin Capital Limited**  
Room 2701,  
Admiralty Centre  
Tower 1, 18 Harcourt Road  
Admiralty  
Hong Kong

Dear Sirs,

**Affluent Foundation Holdings Limited (the “Company”)**  
**Profit Estimate for Year Ended 31 March 2018**

We refer to the estimate of the combined profit attributable to equity holders of the Company for the year ended 31 March 2018 (the “**Profit Estimate**”) set forth in the section headed Financial Information in the prospectus of the Company dated 23 May 2018 (the “**Prospectus**”).

***Directors’ Responsibilities***

The Profit Estimate has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the eight months ended 30 November 2017 and the unaudited combined results based on the management accounts of the Group for the four months ended 31 March 2018.

The Company’s directors are solely responsible for the Profit Estimate.

***Our Independence and Quality Control***

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public



Accountants (“**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 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

***Reporting Accountants’ Responsibilities***

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

***Opinion***

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 23 May 2018, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

Chan Tze Kit

Practising Certificate Number: P05707

## (C) LETTER FROM THE SOLE SPONSOR

The following in the text of a report, prepared for inclusion in this prospectus, received from Dakin Capital Limited, the Sole Sponsor, in connection with the profit estimate for the year ended 31 March 2018.



The Directors  
**Affluent Foundation Holdings Limited**  
Unit 903–905, 9/F  
The Octagon  
No. 6 Sha Tsui Road  
Tsuen Wan  
New Territories  
Hong Kong

23 May 2018

Dear Sirs,

We refer to the estimate of the combined profit of Affluent Foundation Holdings Limited (the “**Company**”, together with its subsidiaries, hereinafter collectively referred to as the “**Group**”) for the year ended 31 March 2018 (the “**Profit Estimate**”) as set out in the prospectus issued by the Company dated 23 May 2018 (the “**Prospectus**”).

The Profit Estimate, for which the Directors are solely responsible, has been prepared by the Directors, based on the audited combined results for the eight months ended 30 November 2017 and the unaudited combined results based on the management accounts of the Group for the four months ended 31 March 2018.

We have discussed with you the bases upon which the Profit Estimate has been made. We have also considered the letter dated 23 May 2018 addressed to you and us from Grant Thornton Hong Kong Limited regarding the accounting policies and calculations upon which the Profit Estimate as been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Grant Thornton Hong Kong Limited, we are of the opinion that the Profit Estimate, for which the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**Dakin Capital Limited**  
**Tam Kin Fong**  
*Managing Director*

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 2 June 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

## 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 14 May 2018. 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 Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such

separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(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; and (g) change the currency of denomination of its share capital.

*(iv) Transfer of shares*

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(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 Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital

or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(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 Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

*(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 Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(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

- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

***(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 Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

*(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 Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (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 Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(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, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(j) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be

issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

### 3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 2 June 2017 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### (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 Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (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 Cayman 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 Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.



A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**(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 the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 29 June 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**(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 Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

**(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 Cayman Companies Law, is available for inspection as referred to in the section headed "Documents available for Inspection" in Appendix VI. 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.

**FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law on 2 June 2017. Our Company has established a principal place of business in Hong Kong at Unit 903–905, 9/F, The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong and was registered as a registered non-Hong Kong company under Part 16 of the Companies Ordinance on 5 July 2017. In connection with such registration, Mr. Sin Ka Pong has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the Companies Law and its constitution, which comprises of the Memorandum and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation, our Company had an initial authorised share capital of HK\$100,000 divided into 10,000,000 ordinary shares with par value of HK\$0.01 each. On 2 June 2017, one nil-paid subscriber Share was allotted and issued to the initial subscriber of our Company, which was subsequently transferred to Oriental Castle on the same date.
- (b) On 23 April 2018, Oriental Castle as vendor, and our Company as purchaser, entered into a sale and purchase agreement, pursuant to which our Company acquired 1 ordinary share of Affluent Century (representing its only issued share) from Oriental Castle. The consideration for acquisition was satisfied by (i) our Company crediting as fully paid at par the 1 nil-paid Share held by Oriental Castle, and (ii) our Company issuing and allotting 9,999 new Shares, credited as fully paid, to Oriental Castle.
- (c) Pursuant to the written resolutions of our then sole Shareholder passed on 14 May 2018, the authorised share capital of our Company was increased from HK\$100,000 divided into 10,000,000 ordinary shares of par value HK\$0.01 each to HK\$40,000,000 divided into 4,000,000,000 ordinary shares of par value HK\$0.01 each, by the creation of an additional 3,990,000,000 Shares.
- (d) Immediately following completion of the Share Offer and the Capitalisation Issue (but without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$40,000,000 divided into 4,000,000,000 Shares and the issued share capital of our Company will be HK\$12,000,000 divided into 1,200,000,000 Shares fully paid or

credited as fully paid, and 2,800,000,000 Shares will remain unissued. Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraph headed “3. Resolutions in writing of the then sole Shareholder passed on 14 May 2018” in this appendix and the allotment and issue of Shares pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in its general meeting, no issue of shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

### **3. Resolutions in writing of the then sole Shareholder passed on 14 May 2018**

Pursuant to the resolutions in writing of the then sole Shareholder passed on 14 May 2018, among other matters:

- (a) our Company approved and adopted the Memorandum and the Articles;
- (b) our Company increased its authorised share capital from HK\$100,000 divided into 10,000,000 ordinary shares of par value of HK\$0.01 each to HK\$40,000,000 divided into 4,000,000,000 ordinary shares of par value HK\$0.01 each by the creation of 3,990,000,000 additional ordinary shares of par value HK\$0.01 each, each ranking *pari passu* in all respects with the Shares in issue at the date of passing of these resolutions;
- (c) conditional on (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange; (ii) the Price Determination Agreement having been executed by the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company and becoming effective on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is the 30th day after the date of this prospectus;
  - (i) the Share Offer and the Adjustment Options were approved and our Directors were authorised to effect the same and to allot and issue the Offer Shares pursuant to the Share Offer and the Adjustment Options;
  - (ii) conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the

Offer Shares by our Company pursuant to the Share Offer, our Directors were authorised to capitalise HK\$8,999,900 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 899,990,000 Shares for allotment and issue to the Shareholder(s) whose name(s) appear on the register of members or the principal share register of our Company at the close of business on 14 May 2018 (or as each of them may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their respective shareholdings in our Company, and the Shares allotted and issued shall rank pari passu in all respects with the then existing issued Shares;

- (iii) 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 issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or pursuant to the exercise of the Adjustment Options or any options which have been or may be granted under the Share Option Scheme, or under the Share Offer or the Capitalisation Issue) Shares or securities convertible into Shares with a total number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme); and (bb) the total number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors in paragraph (iv) below, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors as set out in this paragraph (iii), whichever occurs first;
- (iv) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase 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 the Shares with a total number of not exceeding 10% of the number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be allotted and issued pursuant to the exercise of the Adjustment Options or any options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting



revoking or varying the authority given to our Directors as set out in this paragraph (iv), whichever occurs first; and

- (v) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Other information – 1. Share Option Scheme” below, were approved and adopted, and our Directors were authorised to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme.

#### **4. Group reorganisation**

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the listing of the Shares on the Stock Exchange. Please see the section headed “History, reorganisation and corporate structure – Reorganisation” in this prospectus for further details.

#### **5. Changes in share capital of subsidiaries**

Our Company’s subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants’ Report, we do not have any other subsidiary. Save as disclosed in the section headed “History, reorganisation and corporate structure” in this prospectus, there has been no changes to the share capital made by our subsidiaries during the two years preceding the date of this prospectus.

#### **6. Repurchase of our own securities**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase of Shares by our Company of its own securities.

##### ***(a) Provisions of the Listing Rules***

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

##### ***(i) Shareholders’ approval***

The Listing Rules provide that all proposed repurchase of shares, which must be fully paid up 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 of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the resolutions in writing of the then sole Shareholder passed on 14 May 2018, a general unconditional mandate (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 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 total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding any Shares which may be issued upon exercise of any of the Adjustment Options or 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 date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority given to our Directors.

*(ii) Source of funds*

Any repurchase of securities by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the Companies Law, the applicable laws of the Cayman Islands and the Listing Rules. Our 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 from time to time.

Any repurchases by our Company may be made out of profits of our Company, out of the share premium account of our Company, or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of either or both of the profits of our Company or 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.

Our 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 from time to time.

*(iii) Connected parties*

Our Company is prohibited from knowingly repurchasing the Shares on the Stock Exchange from a “core connected person” (as defined in the Listing Rules), which by definition 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 on the Stock Exchange.

*(iv) Trading restrictions*

Our Company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange up to a maximum of 10% of the total number shares of that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. Our Company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the Stock Exchange or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. Our Company is also prohibited from making securities repurchase on the Stock Exchange if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. Our Company shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

*(v) Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the certificates of the relevant securities must be cancelled and destroyed. Under Cayman Islands law, shares repurchased by a Cayman Islands company may be treated as cancelled and, if so cancelled, the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be taken as reduced.

*(vi) Suspension of repurchase*

Our Company shall not purchase its shares on the Stock Exchange at any time after insider information has come to our knowledge until such time as the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, or any other interim period (whether or not required under the Listing Rules); and (2) the deadline for our Company to publish an announcement of its results for any year, or half-year or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not purchase its securities on the Stock Exchange unless the circumstances are

exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if our Company has breached the Listing Rules.

*(vii) Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares, reporting total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. Our Company shall make arrangements with its broker who effects the purchase to provide our Company in a timely manner the necessary information in relation to the purchase made on behalf of the company to enable our Company to report to the Stock Exchange.

*(b) Exercise of the Repurchase Mandate*

On the basis of 1,200,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue and taking no account of any Share to be issued upon exercise of any of the Adjustment Options or any options which may be granted under the Share Option Scheme, our Directors would be authorised under the Repurchase Mandate to repurchase up to 120,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

*(c) Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

*(d) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules, the Companies Law and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

*(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is exercised.

No core connected person (as defined in the Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so 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 securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases 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).

**FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP****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) a sale and purchase agreement dated 27 June 2017 entered into between Mr. Chan as vendor, and Art Ventures as purchaser, pursuant to which Art Ventures acquired 1,000 shares of HCC Foundations from Mr. Chan, and in consideration, Art Ventures allotted and issued 1 share credited as fully paid to Affluent Century (with the instruction from Mr. Chan);
- (b) an instrument of transfer and bought and sold notes dated 27 June 2017 entered into between Mr. Chan and Art Ventures for the transfer of 1,000 shares of HCC Foundations as referred to item (a) above;
- (c) a sale and purchase agreement dated 27 June 2017 entered into between Mr. Chan and Ms. Chu as vendors, and Luxury Golden as purchaser, pursuant to which Luxury Golden acquired 90,000 shares and 10,000 shares of HCC Transportation from Mr. Chan and Ms. Chu respectively, and in consideration, Luxury Golden allotted and issued 1 share credited as fully paid to Affluent Century (with the instructions from Mr. Chan and Ms. Chu);
- (d) an instrument of transfer and bought and sold notes dated 27 June 2017 entered into between Mr. Chan and Luxury Golden for the transfer of 90,000 shares of HCC Transportation as referred to item (c) above;
- (e) an instrument of transfer and bought and sold notes dated 27 June 2017 entered into between Ms. Chu and Luxury Golden for the transfer of 10,000 shares of HCC Transportation as referred to item (c) above;
- (f) a sale and purchase agreement dated 23 April 2018 entered into between Oriental Castle as vendor, and our Company as purchaser, pursuant to which our Company acquired 1 share of Affluent Century from Oriental Castle, and in consideration, our Company credited as fully paid at par the 1 nil-paid Share held by Oriental Castle, and issued and allotted 9,999 Shares, credited as fully paid, to Oriental Castle;
- (g) an instrument of transfer dated 23 April 2018 entered into between Oriental Castle and our Company for the transfer of 1 share of Affluent Century as referred to item (f) above;
- (h) the Deed of Indemnity;

- (i) the Deed of Non-competition; and
- (j) the Public Offer Underwriting Agreement.

## 2. Intellectual property rights of our Group

### (a) Trademark

As at the Latest Practicable Date, our Group has registered the following trademarks in Hong Kong which are material to our business:

No.	Trademark	Name of owner	Trademark No.	Class(es)	Registration Date	Expiry date
1.	A 	HCC Foundations	304269259	37, 42	12 September 2017	11 September 2027
	B 					
2.	A 	HCC Foundations	304269268	37, 42	12 September 2017	11 September 2027
	B 					
3.	A 	HCC Foundations	304269277	37, 42	12 September 2017	11 September 2027
	B 					

*(b) Domain name*

As at the Latest Practicable Date, our Group was the registered owner of the following domain name, which is material to our Group's business:

<b>Domain name</b>	<b>Registrant</b>	<b>Registration date</b>	<b>Expiry date</b>
<b>hcho.com.hk</b>	HCC Transportation	4 June 2012	4 June 2018

**FURTHER INFORMATION ABOUT OUR DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS**

**1. Directors**

*(a) Particulars of Directors' service contracts*

Each of our executive Directors has entered into a service contract with our Company. The principal particulars of these service contracts are (a) each of them agreed to act as an executive Director for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' written notice served by either party on the other, and (b) is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles. Each of our executive Directors is entitled to a fixed basic annual salary as remuneration and director's fee for his services. Our Board shall have a complete discretion whether to grant any increase in the salary and any increase so granted shall take effect from such date as our Board may specify. In addition, each of our executive Directors is also entitled to a discretionary management bonus as may be determined by our Board at its sole discretion. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him/her.

Each of our independent non-executive Directors has signed an appointment letter with our Company. The principal particulars of these appointment letters are (a) each of them agreed to act for an initial term of one year commencing from the Listing Date with a director's fee, which may be terminated by not less than one month' written notice served by either party on the other, and (b) is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles.

Save as aforesaid, none of our Directors has or is proposed to have a service contract or an appointment letter with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).



*(b) Remuneration of Directors*

- (i) The annual salaries of our executive Directors and the annual director's fees of our independent non-executive Directors are as follows:

<b>Name</b>	<b>Annual amount (HK\$)</b>
<i>Executive Directors</i>	
Mr. Chan Siu Cheong (陳紹昌)	1,200,000
Mr. Sin Ka Pong (單家邦)	1,020,000
<i>Independent non-executive Directors</i>	
Mr. Ho Chi Wai (何志威)	180,000
Mr. Cheung Kwok Yan Wilfred (張國仁)	180,000
Mr. Lau Leong Ho (劉亮豪)	180,000

- (ii) The executive Directors may be granted a discretionary management bonus for the financial year ended 31 March 2019 and onwards at the sole discretion of our Board.
- (iii) For each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017, the aggregate of the remuneration (including salaries and allowance, if any) paid and benefits in kind granted by our Group to our Directors was approximately nil, HK\$369,000, HK\$914,000 and HK\$761,000, respectively.
- (iv) Under the arrangements currently in force at the date of this prospectus, the aggregate of the remuneration (excluding discretionary bonus) payable by our Company and other members of our Group to, and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 March 2019, are expected to be approximately HK\$2,470,000.
- (v) No amount was paid to, or receivable by, our Directors, for each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017 as an inducement to join or upon joining our Company.
- (vi) No compensation was paid to, or receivable by, our Directors (including past Directors) for each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017 for the loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(vii) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017.

***(c) Interests and short positions of Directors in the Shares, underlying shares or debentures of our Company and its associated corporations***

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares to be issued upon exercise of any of the Adjustment Options or 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 shares, underlying shares and debentures of our Company or any of its 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 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 which 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 Listed Issuers contained in the Listing Rules to be notified to our Company and the Stock Exchange, will be as follows:

***(i) Long position in the Shares***

<b>Name of Director</b>	<b>Capacity/Nature of interest</b>	<b>Number of Shares held immediately after completion of the Share Offer and the Capitalisation Issue</b>	<b>Percentage of shareholding immediately after completion of the Share Offer and the Capitalisation Issue</b>
Mr. Chan <i>(Note 1)</i>	Interest in a controlled corporation	900,000,000	75%

*Note:*

- Oriental Castle is beneficially owned as to 90% by Mr. Chan and 10% by Ms. Chu. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Oriental Castle. Ms. Chu is the spouse of Mr. Chan. Accordingly, Ms. Chu is deemed or taken to be interested in the Shares Mr. Chan is interested in under the SFO.

## (ii) Long position in the ordinary shares of associated corporation

Name	Name of associated corporation	Capacity/ Nature of interest	Number of share(s) held	Percentage of interest
Mr. Chan ( <i>Note 1</i> )	Oriental Castle	Beneficial owner	90	90%

*Note:*

- Oriental Castle is the direct Shareholder of our Company and is an associated corporation within the meaning of Part XV of the SFO.

**2. Substantial Shareholders**

So far as is known to our Directors and taking no account any Shares which may be issued pursuant to the exercise of any of the Adjustment Options or any options which may be granted under the Share Option Scheme, the following persons/entities (not being our Directors or chief executive of our Company) will, immediately following 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 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 of its subsidiaries:

Name	Capacity	Number of Shares held immediately after completion of the Share Offer and the Capitalisation Issue (long position)	Percentage of shareholding immediately after completion of the Share Offer and the Capitalisation
Oriental Castle	Beneficial Owner ( <i>Note 1</i> )	900,000,000	75%
Ms. Chu	Interest of a spouse ( <i>Note 2</i> )	900,000,000	75%

*Notes:*

- Oriental Castle is the direct Shareholder of our Company. Oriental Castle is beneficially owned as to 90% by Mr. Chan and 10% by Ms. Chu. By virtue of the SFO, Mr. Chan is deemed to be interested in all the Shares held by Oriental Castle.
- Ms. Chu is the spouse of Mr. Chan. Accordingly, Ms. Chu is deemed or taken to be interested in the Shares Mr. Chan is interested in under the SFO.

### 3. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any of the Adjustment Options or any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Share Offer and the Capitalisation Issue will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other members of our Group;
- (b) taking no account of any Shares to be issued upon exercise of any of the Adjustment Options or 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 Listed Issuers contained 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;
- (c) none of the Directors or the experts named in the sub-paragraph headed “9. Qualifications and consents of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the three years immediately preceding the issue of this prospectus, acquired or disposed of by or leased any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of the Directors or the experts named in the sub-paragraph headed “9. Qualifications and consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of the Directors or the experts named in the sub-paragraph headed “9. Qualifications and 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;

- (f) so far as is known to our Directors, none of our Directors, their respective close 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;
- (g) none of our Directors has any existing or proposed service contracts with member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

## OTHER INFORMATION

### 1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by our Board and the written resolutions of our then sole Shareholder on 14 May 2018.

For the purpose of this section, the following expressions have the meanings set out below unless context otherwise requires:

“Adoption Date”	means 14 May 2018, the date on which the Share Option Scheme is conditionally adopted by our Company by the written resolutions of the sole Shareholder;
“Board”	means our Board from time to time or a duly authorised committee thereof;
“Eligible Employee”	means any employee (whether full time or part time employee, including any executive Directors) of our Company, any of its subsidiaries and any Invested Entity;
“Grantee”	means any Participant who accepts the offer of the grant of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Grantee or the legal representative of such person;

- “Group” means our Company and its subsidiaries from time to time and “member(s) of our Group” shall be construed accordingly;
- “Invested Entity” means any entity in which our Group holds any equity interest;
- “Option” means an option to subscribe for Shares granted pursuant to the Share Option Scheme and for the time being subsisting;
- “Option Period” means in respect of any particular Option, the period during which such Option is exercisable as our Board may in its absolute discretion determine, save that such period shall not be more than ten years from the date upon which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and that our Board may at its discretion determine the minimum period for which the Option has to be held before the exercise of the Option;
- “Participant” means any person belonging to any of the following classes of participants:
- (a) any Eligible Employee;
  - (b) any non-executive Director (including independent non-executive Directors) of our Company, any of its subsidiaries or any Invested Entity;
  - (c) any supplier of goods or services to any member of our Group or any Invested Entity;
  - (d) any customer of any member of our Group or any Invested Entity;
  - (e) any person or entity that provides research, development or other technological support to our Group or any Invested Entity;
  - (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (h) any other group or classes of participants who have contributed or may contribute, by way of joint venture, business alliance, other business arrangement or otherwise, to the development and growth of our Group, and for the purposes of the Share Option Scheme, the Options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of Participants or any discretionary object of a Participant which is a discretionary trust; and

“Scheme Period” means a period commencing on the Adoption Date and ending on the tenth anniversary of the Adoption Date (both dates inclusive).

***(a) Purpose of Share Option Scheme***

The purpose of the Share Option Scheme is to provide incentives or rewards to Participants for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group and any Invested Entity.

***(b) Grant of Option and acceptance of offer***

Subject to Share Option Scheme and the Listing Rules, our Board shall be entitled at any time and from time to time within the Scheme Period to offer to grant to any Participant as our Board may in its absolute discretion select, and subject to such conditions as our Board may think fit, Option(s) to subscribe for such number of Shares as our Board may determine at a price calculated in accordance with sub-paragraph (d) below.

Upon acceptance of an offer for grant of Option(s), the Grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. The Option(s) will be offered for acceptance for a period of 21 days from the date of the offer.

***(c) Restriction on grant of Option***

No offer of grant of Options shall be made where inside information has come to our Company’s knowledge until an announcement of such inside information has been published in accordance with the Listing Rules and/or Part XIVA of the SFO. In particular,

during the period commencing one month immediately preceding the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approval of the results of our Company for any year, half-year or quarter-year period (if applicable) or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of the results for any year, half year or quarter-year (if applicable) or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no Option(s) may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a results announcement. Our Board may not grant any Option(s) to a Participant who is a Director during the periods or times in which such Director is prohibited from dealing in the Shares prescribed by Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules or any corresponding codes or securities dealing restrictions adopted by our Company.

No Participant shall be granted Option(s) which if exercised in full would result in the total number of Shares already issued under all the Options granted to him which have been exercised and issuable under all the Options granted to him which are for the time being subsisting and unexercised in any 12-month period exceeding 1% of the total number of Shares in issue, provided that if approved by Shareholders in general meeting with such Participant and his close associates (or his associates if such Participant is a connected person) abstaining from voting, our Company may make further grant of Options to such Participant (the “**Further Grant**”) notwithstanding that the Further Grant would result in the total number of Shares already issued under all the Options granted to such Participant which have been exercised and issuable under all the Options granted to him which are for the time being subsisting and unexercised in any 12-month period exceed 1% of the total number of Shares in issue. In such circumstances, we must send a circular to the Shareholders and the circular must disclose the identity of the Participant, the number and terms of the Options to be granted and Options previously granted to such Participant and all the information required under the Listing Rules. The number and terms (including the subscription price) of the Option(s) to be granted to such Participant must be fixed before the Shareholders’ approval and the date of the meeting of our Board for proposing such Further Grant of Option should be taken as the date of grant for the purpose of calculating the relevant subscription price.

Unless our Board otherwise determined and stated in the offer of the grant of Option(s) to a Participant, a Grantee is not required to achieve any performance target before any Option(s) granted under the Share Option Scheme can be exercised.

*(d) Price of Shares*

The subscription price for the Shares subject to any particular Option(s) shall be such price as determined by our Board in its absolute discretion at the time of the grant of the relevant Option(s) but in any case the relevant subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily



quotation sheet on the date of the grant of the Option(s), which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of the grant of the Option(s); and (iii) the nominal value of a Share.

For the purpose of determining the relevant subscription price where the Shares have been listed on the Stock Exchange for less than five Business Days preceding the date of the grant of the Option(s), the issue price of the Shares shall be deemed to be the closing price of the Shares on the Listing Date for any Business Day falling within the period before the Shares are listed on the Stock Exchange.

*(e) Maximum amount of Shares*

- (i) The total number of Shares which may be issued upon exercise of all Options (excluding for this purpose Option(s) which have lapsed in accordance with the terms of the Share Option Scheme and any other schemes) to be granted under the Share Option Scheme and other schemes must not, in aggregate, exceed 10% of the Shares in issue on the Listing Date. On the basis of 1,200,000,000 Shares in issue on the Listing Date, the limit will be equivalent to 120,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.
- (ii) Our Company may refresh the 10% limit by seeking prior approval from Shareholders in a general meeting, provided that the total number of Shares which may be issued upon exercise of all Options and any other share option schemes of our Company, in aggregate under the limit as "refreshed", must not exceed 10% of the total number of Shares in issue as at the date of such Shareholders' approval of the refreshed limit. Option(s) previously granted under the Share Option Scheme or any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme) will not be counted for the purpose of calculating the refreshed limit.
- (iii) Our Company may also grant Option(s) beyond the 10% limit by seeking Shareholders' approval in a general meeting, provided that the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. In such event, our Company shall send a circular to our Shareholders containing a generic description of the specified Grantees who may be granted such Option(s), the number and terms of such Option(s) to be granted, the purpose of granting such Option(s), an explanation as to how the terms of the Option(s) serve such purpose and the information required by the Listing Rules.
- (iv) Notwithstanding the foregoing, our Company must not grant any options if 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 schemes of our Company, would exceed 30% of the Shares

in issue from time to time. No options may be granted under the Share Option Scheme or any other scheme of our Company if such grant will result in this 30% limit being exceeded.

- (v) If our Company conducts a share consolidation or subdivision after the 10% limit has been approved in general meeting, the maximum number of Shares that may be issued upon exercise of all Options to be granted under all of the schemes of our Company under the 10% limit as a percentage of the total number of issued Shares at the date immediately before and after such consolidation or subdivision shall be the same.

***(f) 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 to be determined by our Board absolutely, provided that such period shall not be more than ten years from the date upon which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme. Our Board may, at its discretion, determine the minimum period for which the Option has to be held before the Option can be exercised.

The exercise of any Option shall be subject to our Shareholders in general meeting approving any increase in the authorised share capital of our Company. Subject thereto, our Board shall make available sufficient authorised but unissued share capital of our Company for purpose of allotment of shares upon exercise of option(s).

***(g) Rights are personal to Grantee***

Option(s) granted shall be personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option(s). Any breach of the foregoing by the Grantee shall entitle us to cancel any outstanding Option(s) or part thereof granted to such Grantee (to the extent not already exercised) without incurring any liability on our Company.

***(h) Rights on death***

If a Grantee dies before exercising the Option(s) in full, his legal personal representative(s) may exercise the Option(s) in whole or in part (to the extent that it has become exercisable and not already exercised prior to such date of death) within a period of 12 months from the date of death (or such longer period as the Board may determine).

***(i) Changes in capital structure***

In the event of any alteration in the capital structure of our Company whilst any Option(s) remains exercisable, whether by way of capitalisation of profits or reserves,

rights issue, consolidation or subdivision of Shares or reduction of the capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares subject to the Option(s) so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the Option(s); and/or
- (iv) the maximum number of Shares referred in sub-paragraph (e) above and the Further Grant referred in sub-paragraph (c) above.

Our Company's independent financial adviser or auditors shall certify in writing to our Board as to whether the corresponding alterations are in their opinion fair and reasonable. Any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he was entitled to before such alteration and that the aggregate subscription price payable by a Grantee on the full exercise of any Option(s) shall remain as close as possible (but shall not be greater than) as it was before such event. No such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group for cash or as consideration in a transaction.

The capacity of our Company's auditors and independent financial advisers is that of experts and not of arbitrators and their certification, in the absence of manifest error, shall be final and binding on our Company and the Participants. The cost of our independent financial advisers and the auditors shall be borne by us.

**(j) *Rights on take-over***

In the event of a general or partial offer (whether by way of take-over offer, merger, share repurchase offer, or privatisation proposed by scheme of arrangement or otherwise in like manner), is made to all Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert (as defined in the Takeovers Code) with the offeror, we shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the Option(s) granted to them, Shareholders. If such offer becomes or is declared unconditional, the Grantee shall be entitled to exercise the Option(s) (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to us in exercise of the Option(s) at any time with 14 days after the date on which such offer becomes or is declared unconditional.

**(k) Rights on a compromise or arrangement**

- (i) In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, we shall on the same date as or soon after it despatches such notice to each Shareholder give notice thereof to all Grantees and thereupon, each Grantee, subject to the provisions of all applicable laws (or where permitted under sub-paragraph (h) above, and his legal personal representative(s)) shall be entitled to exercise all or any of his Options (to the extent which has become exercisable and not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to us, 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 we 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, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.
- (ii) In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, we shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any Grantee (or where permitted under sub-paragraph (h) above his legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the Court be entitled to exercise his Option(s) (to the extent which has become exercisable and not already exercised), but the exercise of the Option(s) shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. We may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his Option(s) so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

**(l) Rights of Grantee ceasing to be a Participant**

In the event of the Grantee ceases to be a Participant for any reason other than his death or termination of his employment on one or more of the grounds specified in the sub-paragraph (m)(v) below, then, if the Option Period has not at the date of such cessation commenced, the Option(s) shall lapse and if the Option Period has commenced, the Grantee may exercise the Option(s) in accordance with the Share Option Scheme, up to his

entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary or the relevant Invested Entity whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as our Board may determine.

***(m) Lapse of Option***

An Option shall lapse automatically and shall cease to be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);
- (ii) the expiry of any periods referred to in sub-paragraphs (h) and (l);
- (iii) the date on which the offer (or the case may be, revised offer) referred to in sub-paragraph (j) above closes;
- (iv) subject to sub-paragraph (k)(i) above, the date of the commencement of the winding-up of our Company;
- (v) the date on which the Grantee ceases to be Eligible Employee by reason of the termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his 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 summarily at common law or pursuant to any applicable laws or under such Grantee's service contract with our Company or the relevant subsidiary or the relevant Invested Entity. A resolution of our Board or the board of directors of the relevant subsidiary or the board of directors of the relevant Invested Entity to the effect that employment of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee;
- (vi) subject to sub-paragraph (k)(ii) above, the date when the proposed compromise or arrangement becomes effective;
- (vii) the date on which the Grantee commits a breach of sub-paragraph (g) above; or
- (viii) if our Directors at their absolute discretion determine that the Grantee (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the Grantee or his associate on the one part and our Group or any Invested Entity on the other part or that the Grantee has committed any

act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, our Directors shall determine that the outstanding Option(s) granted to the Grantee (whether exercisable or not) shall lapse. In such event, his Option(s) will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

***(n) Ranking of Shares***

Shares allotted and issued upon exercise of an Option will be subject to all provisions of our Company's articles of associations amended from time to time and will carry the same rights in all respects with the existing fully paid Shares in issue as from the day when the name of the Grantee is registered on the register of members of our Company and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date when the name of the Grantee is registered on the register of members of our Company 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 before the date when the name of the Grantee is registered on the register of members of our Company, provided always that when the date of exercise of the Option falls on a day upon which the register of members of our Company is closed then the exercise of the Option shall become effective on the first Business Day in Hong Kong on which the register of members of our Company is re-opened. A Share allotted upon exercise of an Option shall not carry any voting right until the completion of the registration of the Grantee as the holder thereof.

***(o) Cancellation of Options granted***

Any cancellation of Option(s) granted in accordance with the Share Option Scheme but not exercised must be subject to the prior written consent of the relevant Grantee and approval of our Directors.

Where our Company elects to cancel Option(s) and issue new ones to the same Grantee, the issue of such new Option(s) may only be made under a scheme with available unissued Option(s) (excluding cancelled Option(s)) within the limit approved by the Shareholders.

***(p) The Scheme Period***

Subject to the termination of the Share Option Scheme, the Share Option Scheme will be valid and effective for the Scheme Period, after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Options granted during the Scheme Period and remain unexercised

immediately prior to the end of the Scheme Period shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the Share Option Scheme.

*(q) Alteration and termination of Share Option Scheme*

The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of Participants except (i) with the approval of our Shareholders in general meeting; or (ii) where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of Option(s) granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of our Board in relation to any alteration to the term of the Share Option Scheme shall be approved by the Shareholders in general meeting except where the alteration takes effect automatically under the existing terms of the Share Option Scheme.

The amended terms of the Share Option Scheme or the option(s) must still comply with the relevant requirements of Chapter 17 of the Listing Rules and no such alteration shall operate to affect adversely the terms of issue of any Option(s) granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of Grantees as shall together hold Option(s) in respect of not less than three-fourths in nominal value of all Shares then subject to Option(s) granted under the Share Option Scheme and provided further that any alterations to the terms and conditions of the Share Option Scheme which are of a material nature shall first be approved by the Stock Exchange.

Our Company must provide to all Grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

Our Company, by ordinary resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further Option(s) will be offered. On termination, the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Option(s) (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Option(s) (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.



***(r) Granting of Option to a Director, chief executive of our Company or substantial Shareholder or any of their associates***

Where Option(s) are proposed to be granted to a Director, chief executive of our Company or substantial Shareholder, or any of their respective associates, the proposed grant must comply with the requirements of Rule 17.04(1) of the Listing Rules and be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Option(s)).

If a grant of Option(s) to a substantial Shareholder or an independent non-executive Director or their respective associates will result in the Shares issued and to be issued upon exercise of all options granted and to be granted (including exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the relevant class of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5.0 million,

then such further grant of Option(s) must be approved by the Shareholders in a general meeting. At such general meeting, the Grantee, his associates and all core connected persons of our Company must abstain from voting, unless they intend to vote against such further grant and provided that such intention to do so has been stated in the circular that our Company will sold out. Our Company must send to our Shareholders containing all the information required under Rule 17.04(3) of the Listing Rules.

In addition, any change in the terms of the Option(s) granted to a substantial Shareholder or an independent non-executive Director, or any of their respective associates must also be approved by the Shareholders in a general meeting.

The requirements for the grant of an Option to a Director or chief executive of our Company set out in Rules 17.04(1), (2) and (3) of the Listing Rules shall not apply where the proposed grantee is only a proposed Director or chief executive of our Company.

***(s) Conditions of Share Option Scheme***

The Share Option Scheme is conditional upon (i) the Stock Exchange granting approval of the listing of and permission to deal in the Shares which fall to be issued upon exercise of the Option(s) granted under the Share Option Scheme; and (ii) the commencement of dealings in the Shares on the Stock Exchange.



As at the Latest Practicable Date, no options had been granted or agreed to be granted by our Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of Options under Share Option Scheme and listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme.

## 2. Tax and other indemnities

Mr. Chan, Ms. Chu and Oriental Castle (collectively the “**Indemnifiers**”) have pursuant to the Deed of Indemnity, on a joint and several basis, given indemnities to our Company for ourselves and as trustee for other members of our Group in connection with, among other things:

- (a) any liability for Hong Kong estate duty which might be incurred by any of the members of our Group by reason of the death of any person and by reason of any transfer of any property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any of the members of our Group at any time on or before the Listing Date;
- (b) taxation falling on any of the members of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received or entered into (or deemed to be so earned, accrued, received or entered into) on or before the Listing Date or any event or transaction on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company;
- (c) all reasonable costs (including all legal costs), expenses, interests, penalties or other liabilities which any of the members of our Group may properly incur in connection with:
  - (i) the investigation, assessment or contesting of any claim under (b) above;
  - (ii) the settlement of any claim under the Deed of Indemnity;
  - (iii) any legal or arbitration proceedings in which any of the members of our Group claims under or in respect of the Deed of Indemnity and in which judgment, award or decision is given in favour of any of the members of our Group; or
  - (iv) the enforcement of any such settlement or decision or judgment or award;
- (d) any and all losses, claims, actions, demands, liabilities, damages, costs, expenses, penalties, fines and of whatever nature suffered or incurred by any of the members of

our Group, directly or indirectly, as a result of or in connection with any violations or breaches or non-compliance of any laws, rules or regulations and/or all litigations, arbitrations, claims, complaints, demands and/or legal proceedings by or against any of the member of our Group in Hong Kong, the Cayman Islands, BVI or any other part of the world, which was issued, accrued and/or arising from any act of any of the members of our Group at any time on or before the Listing Date, including but not limited to our Group's non-compliance matters occurred during the Track Record Period.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for any taxation, liability or claim mentioned in the four paragraphs immediately above where:

- (a) to the extent that provision has been made for such taxation, liability or claim in the audited accounts of any of the members of our Group up to 30 November 2017;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 December 2017, unless such taxation or liability would not have arisen but for any act, transaction, omission of, or transaction voluntarily entered into by any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets before the Listing Date; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus;
- (c) to the extent that such taxation, liability or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by any relevant authority (whether in Hong Kong or any part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect;
- (d) to the extent that such taxation or liability is discharged prior to the Listing Date by another person who is not a member of our Group and that none of the members of our Group is required to reimburse such person in respect of the discharge of the taxation or liability; or
- (e) to the extent that any provision or reserve made for taxation in the audited accounts of any of the members of our Group up to 30 November 2017 and which is finally

established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

### **3. Litigation**

Save as disclosed in the section headed "Business – Litigation and potential claims" in this prospectus, neither our Company nor any of its subsidiaries are 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 our Company or any of its subsidiaries.

### **4. Agency fees or commissions received**

Except as disclosed in the section headed "Underwriting – Commissions and expenses" in this prospectus, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the three years immediately preceding the date of this prospectus.

### **5. Sole Sponsor**

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; (b) the exercise of the Adjustment Options; and (c) the exercise of options which may be granted under the Share Option Scheme, representing 10% of the Shares in issue on the Listing Date. The Sole Sponsor is entitled to sponsor's fee in the amount of HK\$5.0 million.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

### **6. Compliance adviser**

In accordance with the requirements of the Listing Rules, our Company has appointed Dakin Capital as its compliance adviser to provide consultancy services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year ending 31 March 2019.

**7. Preliminary expenses**

The preliminary expenses relating to the incorporation of our Company are approximately HK\$46,000 and are payable by our Company.

**8. Promoters**

Our Company has no promoter. Within the three years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Share Offer or the related transactions described in this prospectus.

**9. Qualifications and consents of experts**

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Dakin Capital Limited	A corporation licensed to carrying on Type 6 (advising on corporate finance) regulated activity under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants
Appleby	Cayman Islands legal adviser to our Company
China Insights Consultancy Limited	Industry consultant
CT Partners Consultants Limited	Internal control consultant
Mr. Chan Chung	Barrister-at-law in Hong Kong
Ms. Ng Wing Shan Queenie	Barrister-at-law in Hong Kong
Ms. Kwong Wai Yu Claris	Barrister-at-law in Hong Kong
Mr. Ng Kwok Yin, Godwin	Barrister-at-law in Hong Kong

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interest in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

## 10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 11. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## 12. Taxation of holders of Shares

### (a) *Hong Kong*

#### (i) *Profits*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

#### (ii) *Stamp duty*

Hong Kong stamp duty will be payable by the purchaser on every purchase of the Shares and by the seller on every sale of the Shares. The duty is charged on each of the purchaser and seller at the current rate of 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

#### (iii) *Estate duty*

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006. The estate of a person who died before 11 February 2006 is subject to the provisions of the Estate Duty Ordinance (Chapter 111, Laws of Hong Kong), and the Shares are Hong Kong property for this purpose. The estate duty chargeable in respect of estates of

persons dying between the transitional period from and including 15 July 2005 to 11 February 2006 with the principal value exceeding HK\$7.5 million shall be a nominal amount of HK\$100. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of shares whose death occurs on or after 11 February 2006.

**(b) *The Cayman Islands***

Under the Cayman Islands law currently in force, no stamp duty is payable in the Cayman Islands on transfers of our Shares except those which hold interests in land in the Cayman Islands.

**(c) *Consultation with professional advisers***

Intended holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercising any rights attaching to them.

**13. Miscellaneous**

(a) Save as disclosed herein:

- (i) within the three years immediately preceding the date of this prospectus:
  - (aa) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (bb) no share, warrant or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (cc) our Company has no outstanding convertible debt securities; and
  - (dd) no founder, management or deferred shares or any debentures (including convertible bonds) of our Company have been issued or agreed to be issued;
- (ii) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 November 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up);

- (iii) there has not been any interruption in the business of our Group which has had a material adverse effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
  - (iv) none of the equity and debt securities of our Company is listed or dealt with on any other stock exchange nor is any listing or submission to deal being or proposed to be sought;
  - (v) our Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of our Company;
  - (vi) there are no arrangements under which future dividends are waived or agreed to be waived; and
  - (vii) all necessary arrangements have been made to enable the Shares to be admitted into CCASS;
- (b) Subject to the provisions of the Companies Law, the principal share register of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch share register of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Board otherwise agree, all transfers and other documents of title of our Shares must be lodged for registration with and registered by our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

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**APPENDIX VI            DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
   IN HONG KONG AND AVAILABLE FOR INSPECTION**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- i. copies of **White, Yellow** and **Green** Application Forms;
- ii. the written consent referred to in the paragraph headed “Other information – 9. Qualifications and consents of experts” in Appendix V to this prospectus; and
- iii. a copy of each of the material contracts referred to in the paragraph headed “Further information about the business of our Group – 1. Summary of material contracts” in Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Guantao & Chow Solicitors and Notaries, Suites 1604–6, 16/F, ICBC Tower, 3 Garden Road, Central, 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 and the Articles;
- (b) the Accountants’ Report of our Group prepared by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the audited combined financial statements of the companies now comprising our Group for each of the years ended 31 March 2015, 2016, 2017 and the eight months ended 30 November 2017 (or for the period since their respective dates of incorporation/establishment where it is shorter);
- (d) the report on unaudited pro forma financial information of our Group issued by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the letters relating to the profit estimate from Grant Thornton Hong Kong Limited and Dakin Capital Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the industry report prepared by China Insights Consultancy Limited referred to in section headed “Industry overview” in this prospectus;
- (g) the legal opinion dated the date of this prospectus issued by Mr. Chan Chung in respect of certain aspects of Hong Kong laws relating to the operation of our Group;



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**APPENDIX VI            DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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- (h) the legal opinion dated the date of this prospectus issued jointly by Ms. Ng Wing Shan Queenie and Ms. Kwong Wai Yu Claris in respect of certain aspects of Hong Kong laws relating to the operation of our Group;
- (i) the legal opinion dated the date of this prospectus issued by Mr. Ng Kwok Yin, Godwin in respect of certain aspects of Hong Kong tax laws relating to the operation of our Group;
- (j) the report on internal control review prepared by CT Partners Consultants Limited in relation to the non-compliance incidents;
- (k) the letter prepared by Appleby summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (l) the Companies Law;
- (m) the service contracts and appointment letters referred to in the paragraph headed “Further information about our Directors, substantial Shareholders and experts – 1. Directors – (a) Particulars of Directors’ service contracts” in Appendix V to this prospectus;
- (n) the rules of the Share Option Scheme referred to in the paragraph headed “Other information – 1. Share Option Scheme” in Appendix V to this prospectus;
- (o) the material contracts referred to in the paragraph headed “Further information about the business of our Group – 1. Summary of material contracts” in Appendix V to this prospectus; and
- (p) the written consents referred to in the paragraph headed “Other information – 9. Qualifications and consents of experts” in Appendix V to this prospectus.



**Affluent Foundation Holdings Limited**  
**俊裕地基集團有限公司**