

ANCHORSTONE

Anchorstone Holdings Limited 基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1592

SHARE OFFER

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



IMPORTANT

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

ANCHORSTONE

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(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	:	300,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	:	30,000,000 Shares (subject to adjustment)
Number of Placing Shares	:	270,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	Not more than HK\$0.50 per Offer Share and expected to be not less than HK\$0.40 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	1592

Sole Sponsor



華高和昇財務顧問有限公司
WAG Worldsec Corporate Finance Limited

Joint Bookrunners



華金證券(國際)有限公司
Huajin Securities (International) Limited



Pacific
Foundation



雅利多證券
ARISTO SECURITIES LIMITED

Joint Lead Managers



華金證券(國際)有限公司
Huajin Securities (International) Limited



Pacific
Foundation



雅利多證券
ARISTO SECURITIES LIMITED



駿昇證券有限公司
Quasar Securities Co., Limited

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 the accuracy or completeness of this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix V to this Prospectus, has been registered by 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.

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

The final Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Monday, 25 June 2018 (Hong Kong time) and, in any event, not later than Friday, 29 June 2018 (Hong Kong time). The Offer Price will not be more than HK\$0.50 and is currently expected to be not less than HK\$0.40, unless otherwise announced. Applicants for the Public Offer Shares are required to pay, on application, the maximum Offer Price (HK\$0.50) for each Share together with a brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is lower than the maximum Offer Price (HK\$0.50).

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of market interest expressed by prospective institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price range below that stated in this Prospectus (which is HK\$0.40 to HK\$0.50 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares in the Share Offer and/or the indicative Offer Price range will be published on our website (www.anchorstone.com.hk) and the Stock Exchange's website (www.hkexnews.hk), as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the number of Public Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company by Friday, 29 June 2018 (Hong Kong time), the Share Offer (including the Public Offer) will not proceed and will lapse. Further details are set out in the sections headed "Structure and conditions of the Share Offers" and "How to apply for the Public Offer Shares" in this Prospectus.

The obligations of the Public Offer Underwriters under the Public Offering Underwriting Agreement to subscribe or procure subscribers to subscribe for the Public Offer Shares, are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this Prospectus. It is important that you refer to that paragraph for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

20 June 2018

EXPECTED TIMETABLE

We will issue an announcement on our website (www.anchorstone.com.hk) and the Stock Exchange's website (www.hkexnews.hk) if there is any change in the following expected timetable of the Public Offer:

2018⁽¹⁾

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website (www.hkeipo.hk) ⁽²⁾	11:30 a.m. on Monday, 25 June
Application lists open ⁽³⁾	11:45 a.m. on Monday, 25 June
Latest time to: (1) lodge WHITE and YELLOW Application Forms; (2) complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s); and (3) give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Monday, 25 June
Application lists close ⁽³⁾	12:00 noon on Monday, 25 June
Expected Price Determination Date ⁽⁵⁾	Monday, 25 June
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares to be published on our website (www.anchorstone.com.hk) and the Stock Exchange's website (www.hkexnews.hk) on or before	Tuesday, 3 July
Announcement of results of allocations under the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our website (www.anchorstone.com.hk) and the Stock Exchange's website (www.hkexnews.hk) (for further details, please see the section headed "How to apply for the Public Offer Shares — 11. Publication of results" in this Prospectus) from	Tuesday, 3 July
Results of allocations under the Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from	8:00 a.m. on Tuesday, 3 July
Despatch/Collection of HK eIPO White Form e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or before ^(7, 9)	Tuesday, 3 July

EXPECTED TIMETABLE

2018⁽¹⁾

Despatch of Share certificates on or before⁽⁶⁾ Tuesday, 3 July

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

Notes:

- (1) All times and dates refer to Hong Kong local time.
- (2) You will not be permitted to submit your application through the designated website at 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, 25 June 2018, the application lists will not open on that day. For details, please see the section headed “How to apply for the Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this Prospectus.
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should see the section 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 is expected to be on or around Monday, 25 June 2018. If, for any reason, the Offer Price is not agreed by 12:00 noon on Friday, 29 June 2018 between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer (including the Public Offer) will not proceed and will lapse.
- (6) **Share certificates for the Offer Shares are expected to be issued on or before Tuesday, 3 July 2018 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 4 July 2018 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.**
- (7) **Refund cheques/e-Auto Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$0.50 per Offer Share.**
- (8) Applicants who apply for 1,000,000 Public Offer Shares or more under the Public Offer may collect any refund cheque(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Tuesday, 3 July 2018. Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, must be produced at the time of collection. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. Further details are set out in the sections headed “How to apply for the Public Offer Shares — 13. Refund of application monies” and “How to apply for the Public Offer Shares — 14. Despatch/Collection of Share certificates and refund monies”. Applicants who have applied on **YELLOW** Application Forms may collect their refund cheque (if applicable) in person but may not 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.

EXPECTED TIMETABLE

- (9) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the 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 the section headed “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.

For details of the structure of the Share Offer (including its conditions) and the procedures for applications for Public Offer Shares, see the sections headed “Structure and conditions of the Share Offer” and “How to apply for the Public Offer Shares” in this Prospectus, respectively.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by our Company solely in connection with the Public Offer and the Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this Prospectus pursuant to the Public 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 in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

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 the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer.

	<i>Page</i>
Expected timetable	i
Contents	iv
Summary	1
Definitions	12
Glossary of technical terms	21
Forward-looking statements	22
Risk factors	23
Information about this Prospectus and the Share Offer	38
Directors and parties involved in the Share Offer	41
Corporate information	45

CONTENTS

	<i>Page</i>
Industry overview	47
Laws and regulations	57
History and development	64
Business	72
Financial information	116
Relationship with our Controlling Shareholders	153
Directors and senior management	167
Substantial Shareholders	181
Share capital	182
Future plans and proposed use of proceeds	185
Underwriting	189
Structure and conditions of the Share Offer	200
How to apply for the Public Offer Shares	210
Appendix I — Accountant’s report	I-1
Appendix II — Unaudited pro forma financial information	II-1
Appendix III — Summary of the constitution of our Company and Cayman Islands Company Law	III-1
Appendix IV — Statutory and general information	IV-1
Appendix V — Documents delivered to the Registrar of Companies and available for inspection	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Prospectus. You should read this Prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed “Risk factors” starting on page 23 in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

We are a leading and well-established subcontractor in Hong Kong specialising primarily in supply and installation of marble and granite for construction projects, with an operation history of over 22 years. In 2016, we were the second largest marble and granite works contractor in Hong Kong in terms of revenue with a market share of approximately 11.0% according to the CIC Report.

As a specialist contractor in marble and granite supply and installation in Hong Kong, we undertake marble and granite works for a wide range of building and property types in Hong Kong, including commercial buildings, residential buildings, hotels and public infrastructures. We provide one-stop comprehensive services principally covering the following scope:

- recommending and sourcing marble and granite prescribed by our customers or otherwise conformed to the requirements of our customers;
- arranging fabrications of the marble and granite into customised sizes;
- arranging delivery and installation of marble and granite on external cladding of buildings, landscape and/or interiors of the buildings such as entrance lobbies, kitchens and bathrooms; and
- arranging post-installation services such as polishing and cleaning.

We also occasionally sell stones including marble and granite on project and wholesale basis but the revenue generated from these stone sales during the Track Record Period was insignificant. Please refer to the section headed “Business — Our business model” in this prospectus for further details.

Our revenue generated from our continuing operations was approximately HK\$213.3 million, HK\$222.1 million and HK\$224.8 million for FY2015, FY2016 and FY2017, respectively. The following table sets forth a breakdown of our revenue from continuing operations by type of transactions for the periods indicated.

	FY2015		FY2016		FY2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Supply and installation services	208,668	97.8	213,021	95.9	219,861	97.8
Stone sales	<u>4,635</u>	<u>2.2</u>	<u>9,120</u>	<u>4.1</u>	<u>4,932</u>	<u>2.2</u>
	<u><u>213,303</u></u>	<u><u>100.0</u></u>	<u><u>222,141</u></u>	<u><u>100.0</u></u>	<u><u>224,793</u></u>	<u><u>100.0</u></u>

SUMMARY

Our revenue from our continuing operations comprises revenue from (i) supply of marble and granite and the related installation services; and (ii) sale of stone. We use the “percentage-of completion” method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. A substantial portion of our Group’s revenue for the Track Record Period was derived from an exceptionally large project obtained before the Track Record Period, which was located on Mount Nicholson Road, the Peak, and therefore is not indicative of our Group’s future performance.

The following table sets forth a breakdown of gross profit and gross profit margin by types of transactions for the periods indicated:

	FY2015		FY2016		FY2017	
	<i>Gross profit margin</i>		<i>Gross profit margin</i>		<i>Gross profit margin</i>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Supply and installation services	71,963	34.5	60,129	28.2	61,196	27.8
Stone sales	<u>1,430</u>	<u>30.9</u>	<u>3,769</u>	<u>41.3</u>	<u>1,771</u>	<u>35.9</u>
	<u><u>73,393</u></u>	<u><u>34.4</u></u>	<u><u>63,898</u></u>	<u><u>28.8</u></u>	<u><u>62,967</u></u>	<u><u>28.0</u></u>

Our relatively higher gross profit margin in FY2015 was mainly due to our substantial of work performed during the period for a luxurious residential project on Mount Nicholson Road at the Peak that entails relatively higher gross profit margin attributable to the particular requirements on marble stone used.

OUR PROJECTS

The size of property development projects of our customers vary which may involve single storey building to large-scale property development. Our Directors believe that we are able to cater our customers’ need on different project scale. During the Track Record Period and up to the Latest Practicable Date, we completed a total of 17 supply and installation projects with individual contract sum ranging from approximately HK\$0.3 million to HK\$228.7 million, and 5 stone sales projects with individual contract sum ranging from approximately HK\$1.1 million to HK\$8.2 million. As at the Latest Practicable Date, we had a total of 11 supply and installation contracts in progress.

The following table sets forth a breakdown of the contracts awarded to our Group during the Track Record Period by types of transactions:

	FY2015	FY2016	FY2017
	<i>Number of projects awarded</i>		
Supply and installation services	<u><u>3</u></u>	<u><u>8</u></u>	<u><u>8</u></u>
Stone sales	<u><u>1</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

SUMMARY

Supply and installation services

The following table sets forth a breakdown of the supply and installation projects awarded to our Group during the Track Record Period by ranges of awarded contract sum:

	FY2015	FY2016	FY2017
	<i>Number of projects awarded</i>		
<i>Awarded contract sum</i>			
Less than HK\$5 million	—	—	1
HK\$5 million to HK\$20 million	—	4	5
HK\$20 million to HK\$50 million	3	1	2
More than HK\$50 million	—	3	—
Total	3	8	8

Our project backlog

The following table sets out the movement of the number of our supply and installation projects during the Track Record Period:

	FY2015	FY2016	FY2017
Opening number of projects ⁽¹⁾	6	6	12
Number of new projects ⁽²⁾	3	8	8
Number of completed projects ⁽³⁾	3	2	9
Ending number of projects ⁽⁴⁾	6	12	11

Notes:

1. Opening number of projects represents the number of projects which were not completed as of the beginning of the relevant year indicated.
2. Number of new projects represents the number of new projects commenced during the relevant year indicated, including those projects that were tendered in the preceding year but awarded and commenced in the relevant year. The following table sets forth a breakdown of our number of new projects in the years indicated:

	FY2015	FY2016	FY2017
Number of supply and installation projects tendered in preceding year and awarded during the year*	1	5	3
Number of supply and installation projects tendered and awarded during the year*	2	3	4
Number of supply and installation project obtained by way of quotation during the year	—	—	1
	3	8	8

* Please see the section headed “Business — Our projects — Tender success rate” in this Prospectus for further details of our projects tendered in the Track Record Period.

3. Number of completed projects represents number of projects completed by the Group during the relevant year indicated.
4. Ending number of projects equals to opening number of projects plus number of new projects, and minus number of completed projects in the relevant year indicated.

SUMMARY

The following table sets out the movement in terms of monetary value of our supply and installation projects during the relevant period:

	FY2015	FY2016	FY2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening value of backlog	177,122	79,683	159,742
Total value of new contracts ⁽¹⁾	111,229	293,080	154,011
Total revenue recognised ⁽²⁾	(208,668)	(213,021)	(219,861)
Closing value of backlog ⁽³⁾	79,683	159,742	93,892

Notes:

- (1) Total value of new contracts represents the aggregate contract value awarded to us plus the value of works we performed for variation orders during the relevant year indicated.
- (2) Recognised revenue represents the revenue from our supply and installation projects recognised in the relevant year.
- (3) Closing value of backlog represents the remaining contract sum that has not been recognised with respect to projects that have not been fully completed as at the end of the relevant year indicated.

Tender success rate

The following table sets forth our overall tender success rate of supply and installation projects and stone sales projects for the periods indicated:

	FY2015	FY2016	FY2017
Number of tender submitted	29	34	30
Number of tender awarded	8	6	6
Tender success rate ^(note)	27.6%	17.6%	20.0%

Note: Tender success rate is calculated as the number of contracts awarded in respect of the tenders submitted during a financial year, divided by the number of tenders submitted during that financial year.

For further details, please refer to the section headed “Business — Our projects — Tender success rate” on page 92 of this Prospectus.

PRICING STRATEGIES

Our Group usually determines the price on a project-by-project basis depending on (i) the nature, scope and complexity of the projects; (ii) the estimated subcontracting cost; (iii) cost and origin of materials; (iv) completion time required by our customers; (v) availability of our Group’s resources and expertise; (vi) the market conditions; (vii) our working capital and financial conditions; (viii) our relationship with the customers; and (ix) capacity of our project management team.

SUMMARY

OUR CUSTOMERS

During the Track Record Period, most of our revenue were derived from our projects in private sector. Our customers are mainly main contractors in Hong Kong. For each of FY2015, FY2016 and FY2017, the percentage of our total revenue from our continuing operations attributable to our five largest customers in aggregate amounted to approximately 97.1%, 90.3% and 83.3%, respectively. The percentage of our total revenue from our continuing operations attributable to our largest customer, Customer A, amounted to approximately 84.9%, 32.3% and 27.7%, respectively. The significant revenue contribution by Customer A during the Track Record Period was mainly due to the nature of our business being project-based and significant revenue generated from our largest project, being a luxurious residential project on Mount Nicholson Road at the Peak during the Track Record Period. Our Directors consider that despite the customer concentration, our Group is not reliant on any single customer and has a diversified portfolio of customers. For further details, please refer to the section headed “Business — Our customers” beginning on page 94 in this Prospectus.

OUR SUPPLIERS AND SERVICE PROVIDERS

Our major suppliers and service providers include suppliers for stone blocks or slabs, cut-to-size panels, suppliers of accessories, fabricators, design company providing drawing services and installation subcontractors. During the Track Record Period, we outsourced the preparation of detailed specification drawings to third party service providers and our installation services to third party installation subcontractors. During the Track Record Period and prior to 2016, we primarily purchased stone blocks or slabs from stone suppliers and then engage fabricators in the PRC to fabricate into cut-to-size panels according to our customers’ specification. Since 2016, we started to purchase cut-to-size panels from our fabricators which procure blocks or slabs from the quarry or stone suppliers designated by us.

For each of FY2015, FY2016 and FY2017, purchases attributable to our five largest suppliers and service providers amounted to approximately HK\$77.1 million, HK\$127.2 million and HK\$129.8 million, respectively, representing approximately 60.5% and 87.1% and 87.5% of our total purchase, and purchases attributable to our largest supplier or service provider, Supplier A, amounted to approximately HK\$25.7 million, HK\$63.8 million and HK\$71.7 million, respectively, representing approximately 20.2%, 43.7% and 48.3% of our total purchase.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from the competitors: (i) we have established reputation and proven track record; (ii) we have substantial expertise and knowhow in marble and granite; and (iii) we have an experienced project management team.

BUSINESS STRATEGIES

We aim to strengthen our market position in industry through the following strategies: (i) expanding our capacity to undertake projects of more sizeable scale; (ii) strengthening our project management team and continuing to maintain high standards of project planning, management and implementation; (iii) enhancing our services and increasing our sales and marketing effort to forge stronger customer relationships; and (iv) enhancing our information technology capabilities to improve the overall operational efficiency.

SUMMARY

MARKET AND COMPETITION

According to the CIC Report, the business of marble and granite works is concentrated in Hong Kong. There are around 50 marble and granite works subcontractors in Hong Kong, with the top five companies accounting for an aggregate market share of approximately 50.8%. Our Group is one of the top players in the business of marble and granite works in Hong Kong by revenue. According to the CIC Report, it is expected that there will be increasing demand for marble and granite works in Hong Kong. For further information regarding the competitive landscape of the industry in which our Group operates, please refer to the section headed “Industry overview” beginning on page 47 of this Prospectus.

KEY RISK FACTORS

There are certain risks involved in our operations which are beyond our control. They can be broadly categorised into risks relating to our business, risks relating to the industry in which we operate and the risks relating to conducting operations in Hong Kong. Potential investors are advised to read the section headed “Risk factors” in this Prospectus carefully before making any investment decision in our Company. Some of the major risk factors include:

- (i) our revenue relies on successful tenders of marble and granite work projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers;
- (ii) we make estimation of our project costs in our tenders and any failure to accurately estimate the costs involved and/or delay in completion of any project may lead to cost overruns or even result in losses;
- (iii) our cash flows may deteriorate due to potential mismatches in time between receipt of progress payments from our customers, and payments to our subcontractors and suppliers, and we recorded negative operating cash flow for FY2016;
- (iv) we rely on subcontractors and suppliers to help complete our projects;
- (v) marble and granite may fail to gain market acceptance due to changes in our customers’ consumption patterns; and
- (vi) we are affected by the level of demand in the real estate development industry, which may experience a significant downturn.

SHAREHOLDERS’ INFORMATION

Immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares to be allotted and issued pursuant to the exercise of any options to be granted under the Share Option Scheme or the Over-allotment Option), our Controlling Shareholders, comprising Mr. Lui and PMG Investments, are together entitled to control the exercise of the voting rights of 75% of the Shares eligible to vote in the general meeting of our Company. Please refer to the section headed “Relationship with our Controlling Shareholders” beginning on page 153 of this Prospectus for further details.

SUMMARY

KEY FINANCIAL INFORMATION AND OPERATIONAL DATA

The following tables set forth a summary of our financial information for each of FY2015, FY2016 and FY2017, and should be read in conjunction with our financial information and the notes thereto included in Accountant's Report set out in Appendix I to this Prospectus. The summary financial information has been prepared in accordance with HKFRS. For more information, please refer to the section headed "Financial information" in this Prospectus.

Selected combined statements of comprehensive income

	FY2015	FY2016	FY2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations			
Revenue	213,303	222,141	224,793
Gross profit	73,393	63,898	62,967
Profit for the year from continuing operations	44,186	27,371	25,274
Discontinued operations			
Loss for the year from discontinued operations	(404)	—	—
Profit for the year	43,782	27,371	25,274

Selected combined balance sheet items

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	481	1,196	873
Current assets	173,946	231,681	185,526
Non-current liabilities	288	873	613
Current liabilities	172,133	176,887	148,395
Net current assets	1,813	54,794	37,131

Selected combined statements of cash flows

	FY2015	FY2016	FY2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	93,791	(46,744)	27,378
Net cash (used in)/generated from investing activities	(57,783)	139,573	(26,302)
Net cash (used in)/generated from financing activities	(41,690)	(101,847)	9,854
Cash and cash equivalents at the end of year ^(Note)	(9,328)	(18,346)	(7,416)

Note: We had cash and bank balances of HK\$0.7 million, HK\$0.4 million and HK\$0.5 million as at 31 December 2015, 2016 and 2017, respectively. We utilised our bank overdraft facilities during the Track Record Period and for the purpose of the combined cash flows statement pursuant to the relevant accounting standards, our bank overdrafts are presented as an integral part of our cash and cash equivalents as at the respective year end.

SUMMARY

Key financial ratios

	For the year ended/as at 31 December		
	2015	2016	2017
Gross profit margin (%)	34.4	28.8	28.0
Net profit margin (%)	20.7	12.3	11.2
Return on equity (%)	250.8	95.8	54.6
Return on total assets (%)	17.6	13.4	12.1
Interest coverage (times)	12.0	9.2	7.9
Current ratio	1.0	1.3	1.3
Quick ratio	1.0	1.3	1.3
Gearing ratio (%)	6,202.7	205.7	278.5
Net debt to equity ratio (%)	5,617.7	185.1	226.2

For calculation of the above financial ratios, please refer to the section “Financial information — Key financial ratios” in this Prospectus.

Financial performance in the Track Record Period

Revenue

Our revenue from continuing operation increased from HK\$213.3 million for FY2015 to HK\$222.1 million for FY2016 as a result of (i) increase in revenue of HK\$4.3 million from nine new projects commenced during FY2016 and five projects completed or already achieved significant progress of work in FY2015; and (ii) increase in revenue of HK\$4.5 million due to our marble sales to a commercial property project in Tsimshatsui.

Our revenue from continuing operation further increased to HK\$224.8 million for FY2017 was due to increase in revenue of HK\$6.9 million attributable to a residential project on Barker Road, nine new projects commenced work in FY2017; and partially offset by (i) 14 projects which had been completed or achieved comparatively greater progress of work in FY2016 than in FY2017; and (ii) decrease in revenue of HK\$4.2 million mainly attributable to a commercial property project in Tsim Sha Tsui.

Gross profit and net profit margin

Our gross profit margin was relatively stable, except for a relatively higher gross profit margin for FY2015 mainly due to substantial of work we performed during the period for a luxurious residential project at the Peak that entails relatively higher gross profit margin attributable to the particular requirements on marble stone used. Consequently, our net profit margin from continuing operations decreased from 20.7% for FY2015 to 12.3% for FY2016 together with the effect of increase in listing expenses of HK\$8.6 million. Our net profit margin from continuing operations decreased from 12.3% for FY2016 to 11.2% for FY2017 due to decrease in gross profit margin.

For further details of the fluctuations of our historical results of operations, please see the section headed “Financial information — Review of historical results of operations” in this prospectus.

SUMMARY

Net cash used in operating activities and high gearing ratio

Due to the nature of our contract works, we recorded net cash used in operating activities in FY2016 as our contract works usually require significant working capital to finance preliminary works as well as purchase of raw materials in early stage of a project. Our customers do not usually pay any upfront payment or deposits and we normally receive progress payment until our works are certified by our customer or its authorised persons in later stage, and as such, our working capital is mostly tied up at the early stage or during commencement stage of contract works. Furthermore, our customers are generally entitled to withhold certain portion of the progress payments to us as retention money until the completion of the project and/or expiry of the defect liability period, which also has an impact on our liquidity.

As such, our gearing ratios were relatively high during the Track Record Period. As at 31 December 2015, 2016 and 2017, our total indebtedness, including bank and other borrowings and obligations under finance leases was HK\$124.4 million, HK\$113.4 million and HK\$104.2 million, respectively. Please refer to section headed “Financial information — Indebtedness” in this prospectus for further details.

LISTING EXPENSES

Assuming an Offer Price of HK\$0.45 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, our total listing expenses is estimated to be approximately HK\$47.8 million, of which approximately HK\$18.2 million is directly attributable to the issue of new Shares and to be accounted for as a deduction from the equity, and the remaining amount of approximately HK\$29.6 million has been or will be reflected in the combined statements of comprehensive income of our Group. Listing expenses of approximately HK\$1.2 million, HK\$9.8 million and HK\$9.0 million in relation to services already performed by relevant parties, were reflected in our combined statements of comprehensive income for FY2015, FY2016 and FY2017, respectively, and HK\$9.6 million of additional listing expenses are expected to be recognised in the combined statement of comprehensive income of our Group subsequent to the Track Record Period.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to be received by us from the Share Offer (after deducting the underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$0.45 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$87.2 million, assuming the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in following manner:

- approximately HK\$69.3 million or approximately 79.5% of the net proceeds to be used for financing the start-up costs for future projects in the coming two years;
- approximately HK\$3.1 million or approximately 3.6% of the net proceeds to be used for strengthening our project management team in the coming two years;
- approximately HK\$5.2 million or approximately 5.9% of the net proceeds to be used for enhancing our services and increasing our sales and marketing efforts in the coming two years;

SUMMARY

- approximately HK\$2.6 million or approximately 3.0% of the net proceeds to be used to implement a computerised ERP system and recruit two additional technology staff to support the new ERP system in the coming two years; and
- approximately HK\$7.0 million or approximately 8.0% of the net proceeds to repay outstanding trust receipt loan from a bank.

For further details on our future plans and use of proceeds, please refer to the section headed “Future plans and proposed use of proceeds” beginning on page 185 of this Prospectus.

DIVIDEND

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. Dividend of HK\$75.0 million had been declared by one of our subsidiaries to its then shareholders for FY2015 and was subsequently paid during FY2016. Dividend of HK\$43.0 million had been declared by one of our subsidiaries to its then shareholders for FY2017 and was settled by way of offsetting against the amount due from our Controlling Shareholder. Any declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Group currently does not have a pre-determined dividend pay-out ratio. For further details, please refer to the section headed “Financial information — Dividend” beginning on page 151 in this Prospectus.

RECENT DEVELOPMENT

We have continued to focus on our businesses of supply and installation of marble and granite for construction projects in Hong Kong after the Track Record Period. As at the Latest Practicable Date, our Group had 11 on-going supply and installation projects, with a total outstanding contract value of approximately HK\$213.1 million. We continue to execute our projects on hand as disclosed in the section headed “Business — Our projects — Projects on hand as at the Latest Practicable Date” in this Prospectus.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have been awarded or obtained three additional supply and installation projects with total contract sum of approximately HK\$135.6 million. During the same period, we also completed three supply and installation projects. In addition, we have obtained a stone sales project during the first quarter of 2018 for the supply of stones for various residential property projects in the U.S. with a contract sum of approximately USD9.0 million (equivalent to approximately HK\$70.2 million). It is expected that the delivery of the stones for the project in the U.S. will cover the period from the third quarter 2018 to around mid 2019. Accordingly, we expect that the revenue generated from stone sales will increase in FY2018. Although we had been focusing our business in Hong Kong during the Track Record Period and do not have any current plans to actively pursue business opportunities outside Hong Kong, however, we would not preclude any business opportunities in other markets outside Hong Kong.

To the best information and knowledge of our Directors, there are no material changes in general economic and market condition of the marble and granite works industry which would materially and adversely affect business operation, results of operations or financial conditions of our Group after 31 December 2017 and up to the date of this Prospectus. However, our Directors believe the net profit for FY2018 may decrease as a result of the listing expenses and the anticipated increase in staff cost attributable to expansion of our project management team as detailed in the section headed “Business — Business strategies”. Save as disclosed above in the paragraph headed “Listing expenses” in this section above, our Directors confirm that, up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects since 31 December 2017, being the date to which our latest audited financial information was prepared. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.

SUMMARY

OFFER STATISTICS

	Based on the minimum indicative Offer Price of HK\$0.40 per Offer Share	Based on the maximum indicative Offer Price of HK\$0.50 per Offer Share
Market capitalisation at Listing ⁽¹⁾	HK\$480 million	HK\$600 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$0.11	HK\$0.13

Notes:

1. The calculation of the market capitalisation of our Shares is based on 1,200,000,000 Shares in issue immediately after completion of the Share Offer but does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or Share Option Scheme or any Shares which may be allotted or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.
2. The unaudited pro forma adjusted combined net tangible assets of our Group per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this Prospectus for further details.

LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group has been or is involved in a number of claims and litigations. As at the Latest Practicable Date, our Group was subject to certain outstanding and potential employees' compensation claims and personal injury claims. For further details, please refer to the section headed "Business — Litigation and potential claims" beginning on page 112 in this Prospectus.

LEGAL COMPLIANCE

Save as disclosed below, our Directors confirm that there was no material non-compliance of our Group during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we have settled trade payables with our suppliers in the PRC through (i) certain third parties, where our Group paid the trade payable in HKD to a third party in Hong Kong, then such third party remits the equivalent amount in RMB to a designated PRC bank account according to our PRC suppliers instruction or our Group paid the trade payable in HKD to our PRC suppliers designated bank account of its staff in Hong Kong ("**Type 1 Payment Arrangement**") or (ii) Mr. Lui or his associated company paid the trade payable in RMB through their bank account in PRC to a designated bank account of our PRC supplier at their request. Such amount payable to our suppliers may be offset, where relevant, against any amount receivable by Mr. Lui from the respective, and we settle the amount of trade payable with Mr. Lui outside the PRC ("**Type 2 Payment Arrangement**").

The amount of RMB related purchase settled through Type 1 Payment Arrangement for each of FY2015, FY2016 and FY2017 were approximately HK\$11.4 million, nil and nil respectively, while the amount of RMB related purchase settled through Type 2 Payment Arrangement for the same period were approximately HK\$1.2 million, nil and nil, respectively.

As advised by our PRC Legal Advisers, we have not breached or would not be considered to have breached or circumvented any laws, rules and regulations, including among others, the foreign exchange and antimony laundering related laws, rules and regulations of the PRC. On the other hand, Type 2 Payment Arrangement may constitute an act of illegal foreign exchange arbitrage (非法套匯) under the relevant PRC laws and regulations. However, as the making of payment by Mr. Lui and his associated company to our suppliers in the PRC has ceased in June 2015, the limitation period of two years for administrative penalty has passed and therefore Mr. Lui and his associated company will not be subject to administrative penalty. Further, the making of payment by our Related Parties to our suppliers in the PRC will not result in criminal liability. Please refer to the section headed "Business — Legal compliance" beginning on page 113 of this Prospectus for further details.

DEFINITIONS

In this Prospectus, the following terms have the following meanings unless the context otherwise requires.

“Application Form(s)”	WHITE, YELLOW and GREEN application form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 11 June 2018 which will take effect on the Listing Date, 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 our Board
“Board”	the board of Directors
“Business Day(s)” or “business day(s)”	any day(s) (excluding Saturday(s), Sunday(s) or public holiday) in Hong Kong on which licenced banks in Hong Kong are open for banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 899,999,997 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 section headed “Statutory and general information — A. Further information about our Company — 4. Written resolutions of the sole Shareholder dated 11 June 2018 and 14 June 2018” in Appendix IV to this Prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as investor participant(s) who may be individual(s) or joint individual(s) or corporation(s)
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“China” or “PRC”	the People’s Republic of China which, for the purposes of this Prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CIC Report”	a commissioned market research report prepared by China Insights Consultancy Limited, an independent industry consultant
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, modified and supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“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”	Anchorstone Holdings Limited (基石控股有限公司), an exempted company incorporated in the Cayman Islands on 2 February 2016 with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has/have the meaning ascribed to it/them under the Listing Rules and unless the context requires otherwise, refers to PMG Investments and Mr. Lui, who will control the exercise of 75% voting rights in the general meeting of our Company after the Share Offer (assuming that the Over-allotment Option is not exercised)
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 11 June 2018 entered into between each of the Controlling Shareholders and our Company, pursuant to which each of the Controlling Shareholders has given certain tax and estates duty indemnities and other indemnities in favour of our Company (for ourselves and as trustee for each of our subsidiaries) subject to and in accordance with the terms and conditions of the Deed of Indemnity, further particulars of which are set out in the section headed “Statutory and general information — D. Other information — 1. Tax and other indemnities” in Appendix IV to this Prospectus

DEFINITIONS

“Deed of Non-competition”	the deed of non-competition dated 11 June 2018 and given by each of the Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), pursuant to which each of the Controlling Shareholders agreed not to, among other things, engage or participate in any business which is in competition with our business, particulars of which are set out in the section headed “Relationship with our Controlling Shareholders — Deed of Non-competition” in this Prospectus
“Director(s)”	director(s) of our Company
“ electronic application instruction(s) ”	instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares
“Executive Director(s)”	our executive Director(s)
“FY”	the financial year ended or ending 31 December
“GDP”	gross domestic product
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “we”, “our” and “us”	our Company and our subsidiaries or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HK” or “Hong Kong”	Hong Kong Special Administrative Region of the PRC
“ HK eIPO White Form(s) ”	the application of Public Offer Shares for issue in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by the Company, as specified on the designated website at www.hkeipo.hk
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKFRS”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hoko Development”	Hoko Development Limited (豪高發展有限公司), a company incorporated in Hong Kong on 30 July 1992 and held as to approximately 99.9% and 0.01% by Prime Scope and Win Goal, respectively and a connected person of our Group
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“Independent Non-executive Director(s)”	our independent non-executive Director(s)
“Independent Third Party(ies)”	individual(s) or company(ies) which is/are independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder of our Company or any of its subsidiaries or any of their respective associates
“Issuing Mandate”	the general unconditional mandate given to our Board by our Shareholders relating to the issue, allotment and dealings of our Shares, as further described in the section headed “Share capital” in this Prospectus
“Joint Bookrunners”	Huajin Securities (International) Limited, Pacific Foundation Securities Limited and Aristo Securities Limited, being the Joint Bookrunners of the Share Offer
“Joint Lead Managers”	Huajin Securities (International) Limited, Pacific Foundation Securities Limited, Aristo Securities Limited and Quasar Securities Co., Limited, being the Joint Lead Managers of the Share Offer
“Latest Practicable Date”	10 June 2018, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information contained in this Prospectus
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or around 4 July 2018, on which the Shares become listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM of the Stock Exchange (excluding the option market) and which continues to be operated by the Stock Exchange in parallel with the GEM on the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, as amended, supplemented or otherwise modified from time to time
“Mr. Lui”	Mr. Lui Yue Yun Gary, an Executive Director, a Controlling Shareholder and father of Ms. Lui
“Ms. Lui”	Ms. Lui Po Kwan Joyce, an Executive Director and daughter of Mr. Lui
“Nomination Committee”	the nomination committee of our Board
“Offer Price”	the final 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\$0.50 per Offer Share and is expected to be not less than HK\$0.40, which will be determined by agreement among the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or around the Price Determination Date
“Offer Share(s)”	the Public Offer Shares and the Placing Shares including, where relevant, any additional Shares issued pursuant to any exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the Joint Bookrunners under the Placing Underwriting Agreement, exercisable by the Joint Bookrunners (on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to 45,000,000 additional Shares, representing 15% of the Offer Shares initially available under the Share Offer, at the Offer Price to cover any over-allocations in the Placing

DEFINITIONS

“Over-allotment Shares”	up to 45,000,000 Shares which our Company may be required to issue at the Offer Price pursuant to the Over-allotment Option
“Pegasus” or “Pegasus Stone”	Pegasus Stone Limited, a limited company incorporated in the BVI on 15 December 2015 and held as to 100% by our Company
“Placing”	the conditional placing of the Placing Shares at the Offer Price outside of the United States in offshore transactions in reliance on Regulation S, subject to the terms and conditions described in this Prospectus and the Placing Underwriting Agreement
“Placing Shares”	the 270,000,000 Shares initially being offered by our Company for subscription at the Offer Price under the Placing (subject to adjustment as described in the section headed “Structure and conditions of the Share Offer” in this Prospectus), and where relevant, together with any Shares issued pursuant to any exercise of the Over-allotment Option
“Placing Underwriter(s)”	the underwriter(s) of the Placing named in the section headed “Underwriting — The Placing” of this Prospectus
“Placing Underwriting Agreement”	the conditional underwriting agreement expected to be entered into on or about the Price Determination Date by, among others, our Company, our Controlling Shareholders, our Executive Directors, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters
“PMG”	Pacific Marble & Granite Limited, a company incorporated in Hong Kong on 30 June 2011 and an indirect wholly-owned subsidiary of our Company following the Reorganisation
“PMG (BVI)”	Pacific Marble & Granite Holdings (BVI) Limited, a company incorporated in the BVI on 16 June 2011 and held as to 100% by Mr. Lui and a connected person of our Group
“PMG (HK)”	Pacific Marble & Granite (H.K.) Limited, a company incorporated in Hong Kong on 19 December 1991 and an indirect wholly-owned subsidiary of our Company following the Reorganisation
“PMG Holdings”	Pacific Marble & Granite Holdings Limited, a company incorporated in Hong Kong on 4 December 2000 and held as to 100% by PMG(BVI) and a connected person of our Group
“PMG Investments”	PMG Investments Limited, a company incorporated in the BVI on 25 March 2015 and wholly-owned by Mr. Lui
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into among our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price
“Price Determination Date”	the date on which the Offer Price will be determined under the Price Determination Agreement, which is expected to be on or about Monday, 25 June 2018 and in any event no later than Friday, 29 June 2018
“Prime Scope”	Prime Scope Holdings Limited, a company incorporated in the BVI on 30 September 1994 and held as to 100% by Mr. Lui and a connected person of our Group
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (subject to the terms and conditions described in this Prospectus and the Application Forms)
“Public Offer Shares”	the 30,000,000 Shares initially being offered by our Company for subscription at the Offer Price under the Public Offer (subject to adjustment as described in the section headed “Structure and conditions of the Share Offer” in this Prospectus)
“Public Offer Underwriter(s)”	the underwriter(s) of the Public Offer named in the section headed “Underwriting — Public Offer Underwriter(s)” of this Prospectus
“Public Offering Underwriting Agreement”	the conditional Public Offering Underwriting Agreement dated 19 June 2018 relating to the Public Offer entered into by, among others, our Company, our Controlling Shareholders, our Executive Directors, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, as further described in the section headed “Underwriting” in this Prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Repurchase Mandate”	the general unconditional mandate given to our Board by our Shareholders relating to the repurchase of Shares, as further described in the section headed “Share capital” in this Prospectus
“Reorganisation”	the restructuring of our Group in preparation for the Listing, details of which are set out in the section headed “History and development” in this Prospectus
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 11 June 2018, the principal terms of which are summarised in the section headed “Share option scheme” in Appendix IV to this Prospectus
“Shareholder(s)”	holder(s) of Share(s)
“Shanghai Hongjun”	上海宏筠文化傳播有限公司 (Shanghai Hongjun Culture Communication Company Limited*, formerly known as 上海宏康石材有限公司(Shanghai Hongkang Marble & Granite Company Limited*)), a wholly-foreign owned enterprise established in the PRC on 5 July 2000. Immediately prior to the Reorganisation, it was wholly-owned by PMG (HK). Immediately after Reorganisation, it becomes wholly-owned by PMG Holdings. Please refer to the section headed “History and development — Reorganisation — (ii) Equity transfer of Shanghai Hongjun” in this Prospectus for further details
“Shanghai Pacific Marble”	上海太平洋石材有限公司 (Shanghai Pacific Marble and Granite Limited)*, a Sino-foreign cooperative joint venture established under the laws of the PRC on 4 May 1997 and indirectly owned as to 90.48% by Mr. Lui. Please refer to the section headed “Relationship with our Controlling Shareholders — Excluded business — (i) Sale of marble and granite products in PRC” in this Prospectus for further details
“Stabilising Manager”	Huajin Securities (International) Limited, a corporation licenced under the SFO to carry on type 1 (dealing in securities) regulated activities
“Sole Sponsor”	WAG Worldsec Corporate Finance Limited, a corporation licenced under the SFO to carry on type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
“sq.m.”	square metre

DEFINITIONS

“Stamp Duty Ordinance”	the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager and PMG Investments on or about the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 45,000,000 Shares to cover any over-allocations in the Placing
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	FY2015, FY2016 and FY2017
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offering Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“ WHITE 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/applicants’ own name
“Win Goal”	Win Goal Enterprises Limited, a company incorporated in Hong Kong on 15 January 1985 and held as to approximately 99.9% and 0.01% by Prime Scope and Hoko Development, respectively and a connected person of our Group
“ YELLOW 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 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.

The English names of the PRC entities mentioned in this Prospectus which are marked with “” are translated, or transliterated from their Chinese names and are for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this Prospectus as they relate to us. Some of these definitions may not correspond to the standard industry meaning/usage.

“CAGR”	compound annual growth rate
“cut-to-size panel”	stones of specified thickness, which are cut into specific sizes according to the customers’ specification and ready for installation
“granite”	a type of decorative granite stone, including various magmatic rocks and metamorphic rocks, with uniform granular structure, which is mainly composed of quartz, feldspar and small quantities of black minerals
“limestone”	rocks of sedimentary origin that primarily are composed of calcium carbonate without or with limited magnesium. Certain polishable crystalline limestone is commercially classified as marble in the dimension stone industry
“main contractor”	in respect of a construction project, a contractor appointed by the employer who is responsible for the entire construction project and delegates different work tasks of construction to other contractors
“marble”	rock geologically defined as metamorphosed limestone or dolomite that is thoroughly recrystallised and much or all of the sedimentary and biologic texture are obliterated. Commercially and used in this prospectus, marble also includes limestone that is polishable. Many decorative marbles are of this class
“block” or “stone block”	stones of irregular shape directly extracted from quarry and used for further processing into slabs
“slab” or “stone slab”	stones of specified thickness, which are processed from cutting and polishing the stone blocks
“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 for construction
“QS”	quantity surveying

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry overview”, “Business”, “Financial information” and “Future plans and proposed use of proceeds” in this Prospectus. These forward-looking statements include, without limitation, statements relating to: our business strategies and plan of operation, our capital expenditure plans, financing sources, the amount and nature of, and potential for, future development of our business, our operations and business prospects, and our dividend policy.

The words “aim”, “anticipate”, “believe”, “can”, “estimate”, “expect”, “seek”, “plan”, “intend”, “project”, “may”, “ought to”, “will”, “would” and “could”, or similar expressions or the negative thereof, 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 this Prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- our operations and business prospects;
- our business strategies and plan to achieve these strategies;
- our contracts on hand;
- our future debt levels and capital needs;
- the regulatory environment of our industry in general;
- our financial conditions and performance;
- the nature of, and potential for, future development of our business;
- future development in our industry; and
- our dividend policy.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events 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 we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk factors” in this Prospectus.

In this Prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this Prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

In addition to other information in this Prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. Any of the following risks may materially and adversely affect our business, financial condition or results of operations, or otherwise cause a decrease in the trading price of the Offer Shares and cause you to lose part or all of the value of your investment in the Offer Shares.

RISKS RELATING TO OUR BUSINESS

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

During the Track Record Period and up to the Latest Practicable Date, substantially all of our revenue for our continuing operations was derived from marble and granite work projects in Hong Kong which were awarded to us on successful tenders. For each of FY2015, FY2016 and FY2017, our tender success rate was approximately 27.6%, 17.6% and 20.0%, respectively. Our future growth and success will depend on our ability to continue to secure tender and contract awards. In addition, our business is contract-based and on a non-recurring basis. We do not have long-term commitment with our customers and our customers may vary from year to year.

During the Track Record Period and up to the Latest Practicable Date, we secured our marble and granite work projects through competitive tender process. There is no guarantee that our current customers will in the future continue to include us in their tendering process or award us with new contracts, or that we will be able to seek new customers. Upon completion of our contracts on hand, our financial performance may be adversely affected if our Group is unable to secure new tenders or obtain new contract awards with comparable contract sums or at all. In addition, our customers normally adopt a pre-qualification assessment when selecting the contractors, which among other things, evaluates the qualification, business scale, regulatory compliance and past experience of the contractors. There is no assurance that we will be selected in accordance with our customers' evaluation standards, the failure of which may adversely affect our reputation, business, financial condition and results of operations.

We make estimation of our project costs in our tenders and any failure to accurately estimate the costs involved and/or delay in completion of any project may lead to cost overruns or even result in losses

Whether we are able to submit tender proposal at a competitive price with adequate profit margin and maintain our profitability depends on various factors. We generally prepare our tender and quotation based on our estimated project costs (which mainly include subcontracting costs and material costs) plus a mark-up margin at the time when we submit our tender for projects or our initial proposals to our potential customers. When we determine the tender price, we also take into account factors including (i) the nature, scope and complexity of the projects; (ii) the estimated subcontracting cost; (iii) cost and origin of materials; (iv) completion time required by our customers; (v) availability of our Group's resources and expertise; (vi) market conditions; (vii) our working capital and financial condition; (viii) our relationship with the customers; and (ix) capacity of our project management team.

RISK FACTORS

However, our profit may be substantially reduced if our subcontracting and material costs significantly increase after tender or if we encounter delays in completing our projects. In line with the market practice, we only negotiate the price and confirm our engagement with the subcontractors after we are awarded with the tender. As such, the subcontracting fees are subject to changes after we enter into formal agreement with our customers and during the course of the projects, which may result from changes in cost of labour, technical specifications or customers' requirements in connection with the projects. The price of materials may also be subject to fluctuation after we entered into the contracts with our customers. Additional labour costs and operating costs derived from delay in completion of projects caused by adverse weather condition and other unforeseen problems and circumstances may also increase the subcontracting fees. In addition, there is no guarantee that the quality of materials supplied to our Group will always meet our required standards, and we may be forced to replace these raw materials from other suppliers at additional costs, which may also cause delay to the completion of the project. Furthermore, we cannot guarantee that the costs of raw materials will be stable. If we are unable to factor in these potential fluctuations into each of our tenders or quotations and pass on a part or the whole of any additional costs to our customers or reduce other costs, our financial results and position may be materially and negatively affected.

Our cash flows may deteriorate due to potential mismatches in time between receipt of progress payments from our customers, and payments to our subcontractors and suppliers, and we recorded negative operating cash flow for FY2016

We generally incur significant costs including materials costs and service fees of our fabricators and installation subcontractors before we receive the progress payments from our customers for our projects. The mismatch in time between receipt of payments from our customers, and payments to our subcontractors and suppliers may materially and adversely affect our liquidity and financial condition. Our cash position may be further compromised if any of our customers does not promptly settle the progress payments, or release the retention monies on a timely manner. For FY2016, we recorded negative operating cash flow and our net cash used in operating activities amounted to approximately HK\$46.7 million, which was mainly due to increase in trade and retention receivables from our customers and net increase in amounts due from/to customers for contract work. In addition, we require sufficient working capital in order to take on new projects. Our weak liquidity position may limit our ability to participate in more projects and/or projects of larger size, which may hinder our continuous growth and expansion of business.

We cannot assure you that we will be able to record positive operating cash flows in the future. Further, during the Track Record Period, we have relied on bank overdraft to finance our operations, which amounted to approximately HK\$10.1 million, HK\$18.7 million and HK\$7.9 million, as at 31 December 2015, 2016 and 2017, respectively. We may need to resort to additional financing activities to fund our operations should our future operating activities be unable to generate sufficient cash flows and we cannot assure you that we will be able to obtain sufficient cash on terms acceptable to us from external sources or at all. If we incur substantial increases in financing costs arising from additional financing activities or if we cannot obtain sufficient cash, our business, financial condition, results of operations and prospects may be materially and adversely affected. Please refer to the section headed "Financial information — Liquidity and capital resources — Cash flow" in this Prospectus for a more detailed discussion.

RISK FACTORS

We rely on subcontractors and suppliers to help complete our projects

We have in the past relied on and expect to continue to rely on our subcontractors and suppliers to complete a substantial part of the work of our projects including stone supplies, fabrication and installation works. For each of FY2015, FY2016 and FY2017, our fees paid or payable to subcontractors and suppliers amounted to approximately HK\$122.7 million, HK\$134.9 million and HK\$145.4 million, respectively, representing approximately 87.8%, 85.2% and 89.8% of our total cost of sales, respectively.

During the Track Record Period and prior to 2016, we outsourced the stone processing to our fabricators who were responsible for fabricating the stones to meet the specifications as requested by our customers and delivering the processed stones to the construction sites. Since 2016, we have requested our fabricators to also include procurement of stones from suppliers specified by us all around the world as part of their subcontracting work with the aim of transferring the risk of wastage of materials in addition to the budgeted range to the fabricators and better control our cost. Such new arrangement results in a higher working capital requirements of our fabricators as they are required to pay the material costs to the stone suppliers before reimbursed by us. Further, they should have obtained the requisite permit and/or licence to engage in exports or imports of stones and overseas payment. There is no guarantee that we are able to continue to find fabricators who are legally authorised, financially capable and willing to engage in such arrangement for our projects.

We also rely on installation subcontractors in Hong Kong to install the cut-to-size panels. There is no assurance that there will be no shortage of installation subcontractors in Hong Kong in the future, as a result of which we may need to pay a higher subcontracting fee in order to secure the services from them and the total cost and progress of our projects may be adversely affected if we are unable to engage suitable installation subcontractors in a timely manner. In addition, pursuant to the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), a principal contractor and every superior subcontractor is/are jointly and severally liable to pay any wages that become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, if such wages are not paid within the period specified in the Employment Ordinance. Our operations and hence our financial position may be adversely affected if any of our subcontractors violates its obligations to pay its employees.

There is no assurance that our major subcontractors and suppliers will be able to continue to provide services to our Group at fees acceptable to us or we can maintain our relationship with them in the future. Suitable subcontractors may not always be readily available whenever we need to engage them and there is no assurance that we would be able to find suitable alternative subcontractors which meet our project needs and requirements to complete the projects. If there is a significant increase in the costs of labour and our subcontractors have to retain their labour by increasing their wages, our subcontracting costs will increase, and thus may lower our profitability.

Currently, our project management team is responsible for overseeing and coordinating the stone procurement, fabrication and installation works to ensure that our subcontractors carry out their jobs in accordance with our requirements and their timely compliance with the project schedule. However, we may not have sufficient manpower to closely supervise the works of our subcontractors and may be unable to monitor the performance of the subcontractors as directly and efficiently as the way in which we monitor our own staff. If the subcontractors fail to meet our requirements and/or standards, we may

RISK FACTORS

experience delays in project completion, quality issues concerning the works done, or non-performance by subcontractors. Consequently, we have to incur significant time and costs to carry out remedial action, which would in turn adversely affect the profitability and reputation of our business, and may also result in litigation or claims against us or damages.

If we fail to complete our works on time or at all, we may be required to pay liquidated damages or other penalties

Our Group may be subject to liquidated damages due to delay in completing the project if extension of time is not granted by our customers, calculated on the basis of a fixed sum per day or according to certain damages calculating mechanism as stipulated under the contract for the period which the works remain incomplete.

There may be delays or disruptions to our works due to unforeseen circumstances that are beyond our expectation or control, including but not limited to: (i) delays in shipment arrival of the raw materials; (ii) unfavourable weather conditions; (iii) defective stone fabrication works; and/or (iv) other construction risks such as work injuries and disputes with customers, suppliers, subcontractors of any tiers and other project parties. As such, we cannot guarantee that we will complete every project on time or at all, nor can we assure you that our customers would grant us sufficient time extensions in case of delay in completion. If we fail to complete the projects on time, significant amount of liquidated damages or other penalties may be imposed upon us, which would in turn adversely affect our profitability and operating results.

During the Track Record Period and up to the Latest Practicable Date, we had no material liquidated damages claim made against us.

We may be unable to secure adequate supplies of marble and granite which are of satisfactory quality at commercially reasonable prices or experience loss or damage of marble and granite during transportation or storage

Although we may make recommendations to our customers on the marble and granite to be used, our customers normally have specific requirements on the features or types of stones and we are responsible for selecting and arranging for the procurement of the stones based on their instructions. If the stones are uncommon or we have no previous experience in sourcing such stones before, we may need to rely on another agent or multiple agents to source the stones for us. In addition, although we have engaged our quality control staff to be in charge of procurement and inspection of the stones, there is no guarantee that the stones procured are free of defects or meet our customers' requirements. Therefore, we cannot assure you that we will be able to continue to secure adequate supplies of marbles and granite which are of satisfactory standard or which are demanded by our clients to be used in the projects at commercially reasonable prices.

Furthermore, we may experience loss or damage of marble and granite during transportation or storage. For our day-to-day operations, we may face the risk of loss or damage to marble and granite due to mishandling, breakage or other reasons beyond our control. As the marble and granite for our projects are sourced according to confirmed orders, in the event that we are unable to secure sufficient quantity of materials for our projects or the relevant materials are lost or damaged while being stored at our storage facility or during transportation, we may not be able to secure replacement to meet the

RISK FACTORS

completion deadlines of our projects and may be forced to use more expensive alternative sources of supplies or to incur other additional costs to satisfy our contractual obligations. These events could result in delivery and installation delays or increase our costs and adversely affect our profitability.

Any fluctuation in the price of marble and granite may affect its demand which in turn may have adverse impacts on our financial results

During the Track Record Period, the marble and granite used in our projects were sourced from stone suppliers from the PRC, France, Turkey and Portugal. Our cost of raw materials accounted for approximately 18.8%, 45.4% and 39.6%, of our total cost of sales for each of FY2015, FY2016 and FY2017, respectively.

The average price of marble during 2015, 2016 and 2017 was HK\$4,442.0 per tonne, HK\$4,217.5 per tonne and HK\$4,169.0 per tonne respectively, while the average price of granite for the same period was HK\$1,270.0 per tonne, HK\$1,458.0 per tonne and HK\$1,848.4 per tonne respectively. Government policies, macro-economic factors, global economic environment and other factors beyond our control could significantly result in an oversupply or decreased demand for marble and granite, which in turn would result in fluctuations in the market price. There can be no assurance that the market price of marble and granite will not fluctuate in the future. If the costs of marble and granite increase, our customers may choose to use alternative materials, such as ceramic tiles, which would decrease the demand of our services. Therefore, a significant fluctuation of the market prices of the marble and granite could materially and adversely affect our business, prospects, financial condition and results of operations.

We depend on our key management personnel and experienced employees

Our success and growth depend on our ability to identify, hire, train and retain suitable, experienced and qualified employees, including management personnel and technical expertise with the requisite industry expertise. Our Directors and members of senior management, in particular, our project management team is important to us. Mr. Lui and Mr. Kan both had over 30 years of working experience in the stonework industry in Hong Kong. Our continued success is dependent, to a large extent, on our ability to retain the services of our management and project management team. Our management personnel and experienced employees may leave us or we may terminate their employment at any time. We cannot assure you that we will be able to retain our management personnel and experienced employees or find suitable or comparable replacements on a timely basis or at all. Nor can we assure you that we will be able to recruit additional suitable employees with adequate industry experiences and capabilities to support our future operations and growth. Moreover, if any of our management personnel or experienced employees leaves us or joins a competitor, we may lose our customers, suppliers and know-how. The loss of services of any of our management personnel and experienced employees could have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We generate a significant portion of our revenue from our five largest customers, any decrease or loss of business relationship with them or secure new business may affect our Group's operations and financial performance

We generated a significant portion of revenue from projects of a small number of customers during the Track Record Period. For each of FY2015, FY2016 and FY2017, our five largest customers accounted for approximately 97.1%, 90.3% and 83.3% of our revenue from our continuing operations, respectively, and our largest customer accounted for approximately 84.9%, 32.3% and 27.7% of our revenue from our continuing operations, respectively. Please refer to the section headed "Business — Our customers — Customer concentration" in this Prospectus for further details.

We do not enter into any long-term service agreement with our customers and our services are provided on a project-by-project and non-recurring basis. As such, there is no assurance that our major customers will retain us upon completion of the existing project or that they will maintain the current level of business with us and engage us in the future. If there is a significant decrease in number of projects or size of projects in terms of contract value awarded by our major customers, and if we are unable to obtain sufficient projects with comparable size as replacement, our business, results of operations and financial condition may be materially and adversely affected.

Our historical revenue and profit margin may not be indicative of our financial performance in the future

We experienced revenue growth over FY2015, FY2016 and FY2017. Our revenue from our continuing operations increased from approximately HK\$213.3 million for FY2015 to approximately HK\$222.1 million for FY2016 and further increased to approximately HK\$224.8 million for FY2017. For each of FY2015, FY2016 and FY2017, we recorded gross profit margin of 34.4%, 28.8% and 28.0%, respectively. As at the Latest Practicable Date, we had 11 on-going supply and installation projects with total contract sum of approximately HK\$391.6 million and outstanding contract value of approximately HK\$213.1 million. However, such trend of our historical financial information merely reflected past performance of our business only.

Our future performance will depend on, among other things, our ability to secure new projects and control on our costs and will be subject to the risks set out in this section. Therefore, our historical performance does not have any positive implication or may not necessarily reflect our financial performance in the future. In addition, our profit margin may fluctuate from project to project due to a number of factors, including but not limited to, the type of stones required for the project, the accuracy of our estimate of costs when determining the tender price, the complexity and size of the project, subcontracting charges and our pricing strategy. There is no guarantee that we will be able to command a similarly high gross profit margin in the future as some of the factors affecting our profitability such as types of stones to be used in the project are beyond our control. Nor can we assure you that we will be able to secure sufficient projects of favourable size and quantity, maintain our current turnover and profit levels in the future or attain growth rates similar to those achieved by us during the Track Record Period.

RISK FACTORS

We are exposed to disputes, claims or litigation

We may be involved in disputes arising from our business operations with our customers, suppliers, subcontractors, workers and other parties concerned with the projects from time to time, which may lead to legal and arbitration proceedings. For instance, disputes may arise due to late completion of works, delivery of substandard works or late or insufficient payment. Any personal injuries and/or fatal accidents to the employees of our Group and our subcontractors may also lead to claims or other legal proceedings against our Group. As at the Latest Practicable Date, there was one outstanding personal injury legal proceeding brought against us which was attempting to be resolved by mediation and we were subject to a number of potential employees' compensation claims and personal injury claims arising from certain accidents involving the employees of our subcontractors during the Track Record Period. For further details, please refer to the section headed "Business — Litigation and potential claims" in this Prospectus. Handling of such cases may also be time-consuming and may divert the efforts and resources of our management.

In addition, in the course of project implementation, our customers may give variation orders to us and request us to alter the scope of works or perform additional works on top of the scope of the original contracts. The terms and conditions relating to such variation orders may not be covered by the original contract documents and the total contract sum of the relevant project may be subject to further negotiation with our customers. Our customers and our Group may take different views on the valuation on variation works. If these disputes arise, we may have to incur costs to defend our Group in legal and arbitration proceedings. If we are not successful in defending our Group in any proceedings, we may be liable to pay damages. Such payments may be significant and may adversely affect our business operations and financial position.

Although we are covered by insurance policies and retained retention moneys from our subcontractors to cover some of those claims, the insurance coverage or money retained may not be sufficient for the claim. The outcome of a claim is subject to relevant parties' negotiation, decision of the court or relevant arbitration organisation and it can be unfavourable to us. Should such claims fall outside of the scope and/or limit of our insurance coverage or retention moneys retained from our subcontractors, our financial position and results of operation may be adversely affected.

Our insurance may not fully cover all the potential losses arising from our business

During the Track Record Period, our Group was engaged either as a domestic subcontractor or a nominated subcontractor for our supply and installation projects. In the event that our Group is engaged as a domestic subcontractor, our Group's customer or the main contractor is responsible for the contractors' all risk insurance policies which cover our Group's liabilities arising from potential damage to the buildings or structures as well as potential bodily injury to third parties or damage to third parties' properties as a result of the performance of our Group's subcontracted works. In the event that our Group is engaged as a nominated subcontractor, our Group may be responsible for taking out the employees' compensation insurance policies for our employees and our subcontractor's employees. Such insurance policy generally extends for the entire contract period, including the defect liability period following completion of the project. For details, please refer to the section headed "Business — Health and safety — Insurance" in this Prospectus.

RISK FACTORS

Nonetheless, there is no assurance that all potential losses and expenses incurred from damages or liabilities in relation to our business can be fully covered by insurance. In the event that we suffer from any losses, damages or liabilities in the course of our business operations which our insurance does not cover, we may not have sufficient funds to cover such losses, damages or liabilities. The resulting payment to cover such losses, damages or liabilities may have a material adverse effect on our business, results of operations and financial position.

We are exposed to our customers' credit risks and our liquidity position may be adversely affected if our customers fail to make payment on time or in full

Our Group's supply and installation contracts normally require our customers to make progress payments on a monthly basis with reference to the value of works done. Once our Group has submitted a payment application, the authorised persons, such as the architects or consulting quantity surveyors, appointed by our customer will certify the amount of work done. Our customer usually settles the progress payment, net of any agreed retention money, within a certain period of time after receipt of the progress certificate issued by the authorised person. Our stone sales contracts normally require our customers to make payment within a certain period of time after our delivery of stones or, if our obligation of delivery is continuous, on monthly basis. Our trade receivables were approximately HK\$3.4 million, HK\$55.1 million and HK\$59.1 million as at 31 December 2015, 2016 and 2017, respectively. There is no assurance that the financial position of our customers will remain healthy in the future. We also cannot assure that we will be able to collect receivables from our customers on a timely basis or that there will not be any future dispute in terms of collection of receivables with our customers which may result in significant delay in receivables collection.

In addition, retention monies are generally required by our customers to secure our Group's due performance of the contracts. Retention money is normally 10% of each progress payment, subject to a maximum rate of 5% of the total contract value. Generally, the first half of the retention money is released upon the issue of certificate of practical completion of the project and the second half of the retention money is released upon the issue of certificate of completion of making good defects after the expiry of the defect liability period. As at 31 December 2017, the aggregate retention money held by our customers for contracted works included in our retention receivables amounted to approximately HK\$31.0 million. In the event our customers fail to pay the retention monies on a timely basis or at all, our liquidity may be adversely affected.

If our customers experience financial distress or are unable to settle their payments due to us or release the retention monies to us in a timely manner or at all, our liquidity and the financial condition of our Group could be adversely affected.

We may be unable to implement our business strategies effectively

Our ability to continue to grow our business will depend on our continuing ability to successfully implement our business strategies as further detailed in the section headed "Business — Business strategies" in this Prospectus.

Our ability to implement our business strategies depends on, among other things, the general economic conditions in Hong Kong, our ability to continue to maintain close relationships with our key customers and subcontractors/suppliers, the current growth prospects for real estate and construction projects, our ability to recruit suitable employees, the availability of management, financial, technical,

RISK FACTORS

operational and other resources, and competition. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. In the event that we are unable to implement these strategies, each of which is subject to factors beyond our control, we may not be able to grow at a rate comparable to our growth in the past, or at all. Consequently, if we fail to effectively implement our business strategies, our business, financial position and results of operations may be materially and adversely affected.

We may not be able to detect and prevent fraud or other misconduct which may be committed by our employees or third parties

Fraud and other misconduct which may be committed by employees or third parties can be difficult to prevent or deter despite robust internal controls and corporate governance practices. Such illegal actions could cause detriment to our reputation, subject us to financial losses and harm our business and operations. In addition to potential financial losses, improper acts of our employees or third parties could subject us to third party claims and regulatory investigations. Any such fraud or other misconduct committed against us, whether involving past acts or future acts, could have an adverse effect on our business, financial condition and results of operations.

Industrial actions or strikes may affect our business

Construction works are usually divided into various different disciplines. Industrial action of any one discipline may disrupt the progress of our projects. During the Track Record Period, we did not encounter any strike action. However, there is no assurance that industrial actions or strikes will not be launched in the future. Such industrial actions or strikes may adversely impact our business performance and hence the profitability and results of our operation. Any delay in completing our projects caused by such actions or strikes may also be taken into consideration by our customers and thus will impact our likelihood of winning future tenders.

We have contingent liabilities involving uncertainty as to possible loss to our Group

For some of the contracts, we are generally required to provide performance bonds of up to 10% of the total contract sums issued by banks in favour of the customers as security for the due performance and observance of our Group's obligations under the service contracts entered into between our Group and our customers. As at 31 December 2017, performance bonds issued by banks to our customers amounted to approximately HK\$2.8 million. If our Group fails to perform its obligations to the satisfaction of our customers that leads to a breach of contract to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated in such demand. Our Group will then become liable to compensate such banks accordingly and our business, financial condition and results of operations will be adversely affected.

Failure to maintain our reputation and brand name could adversely affect our business, financial condition and results of operations

We believe that the reputation and brand names that we have built up over the years play a significant role in enabling us to attract customers and secure projects. Promotion and enhancement of our reputation and brand name depend largely on our ability to provide quality and timely service to our

RISK FACTORS

customers. If our customers no longer perceive our services to be of a high quality, our brand name and reputation could be adversely affected which will in turn negatively affect our business, financial condition and results of operations.

RISKS RELATING TO OUR INDUSTRY

Marble and granite may fail to gain market acceptance due to changes in our customers' consumption pattern

We specialise in marble and granite works in construction projects and are responsible for recommending and/or selecting various types of marble and granite for our customers. Market acceptance of such products in general could be affected by the popularity of competing products such as ceramic tiles and glasses. We cannot assure you that marble and granite will continue to gain market acceptance. If there is any adverse change in market demand, customer preference or market prices for marble and granite or any failure to predict and adapt to such adverse change, our business, prospects, financial condition and results of operations may be materially adversely affected.

We are affected by the level of demand in the real estate development industry, which may experience a significant downturn

The demand for marble and granite is affected by the growth of the commercial and residential real estate development industries in Hong Kong, which could in turn be affected by a number of factors, such as the strength of the commercial and residential property markets, the development of hospitality industry, the land supply policy of the Hong Kong Government, the investment of property developers and hotel operators, the level of disposable income, consumer confidence, unemployment rate, interest rates, credit availability, volatility in the stock markets and the general conditions and prospects of Hong Kong's economy. The demand for marble and granite will also be increasingly affected by the level of redevelopment/retrofitting activities undertaken by the owners of the properties.

Any decrease in residential real estate development and construction activities in general (including a continued decrease in residential construction or a weakening of commercial construction) or any decrease in redevelopment/retrofitting activities could lead to a decrease in demand of marble and granite, which in turn decreases the demand for our services and results in reduced profit margin and tightened liquidity available to us, any of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our operations may be affected by adverse weather conditions and are subject to other construction risks

Some of our Group's projects are undertaken outdoor. Our operations may be interrupted or otherwise affected by adverse weather conditions such as rainstorms, tropical cyclones and continuous rain. If adverse weather conditions persist or natural disaster occurs, we may be prevented from performing works at our sites, and thereby fail to meet specified time schedule. If we have to halt operations during inclement weather or natural disaster, we may continue to incur operating expenses even while we experience reduced revenues and profitability.

RISK FACTORS

Besides, our business is subject to outbreak of severe communicable diseases (such as swine flu, avian flu, Middle East respiratory syndrome and severe acute respiratory syndrome), natural disasters or other acts of God which are beyond our control. These incidents may also adversely affect the economy, infrastructure, livelihood and society in Hong Kong. Acts of wars and terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our operations and destroy our works performed. If any such incident occurs, our revenue, costs, financial conditions and growth potentials will be adversely affected. It is also difficult to predict the potential effect of these incidents and their materiality to our business as well as those of our customers, suppliers, subcontractors and employers.

We have to, or procure our subcontractors to, comply with a number of applicable construction, safety, environmental protection laws, regulations and requirements to perform our business operation

In order to perform our business operation, we have to, or procure our subcontractors to, comply with a number of construction, safety, building and environmental protection laws, regulations and requirements in Hong Kong. For details, please refer to the section headed “Laws and regulations” in this Prospectus.

In the event that we or our subcontractors fail to meet the applicable construction, safety, environmental protection laws, regulations and requirements, we or our subcontractors may be subject to fines or required to make remedial measures which may in turn have an adverse effect on the operations and financial condition of our Group. In addition, there is no assurance that the construction, safety, environmental protection laws, regulations and requirements will not be changed in the future. Should there be any change to the construction, safety, environmental protection laws, regulations and requirements applicable to us or our subcontractors, we may incur additional cost in complying with the new law(s), regulation(s) and requirement(s), which in turn may adversely affect the profitability of our Group.

We may have to comply with the proposed Security of Payment Legislation for the Construction Industry (“SOPL”)

In view of the proposed SOPL, our future contracts with sub-contractors and suppliers will likely be subject to the payment deadlines set forth under SOPL. Under the proposed SOPL, our customers are required to pay us within 60 calendar days for interim payment and 120 calendar days for final payment. Similarly, we have to pay our sub-contractors and suppliers within the same term regardless whether we are paid by our customers. For details of the proposed SOPL, please see section headed “Laws and regulations” in this Prospectus.

As cash inflow from our customers is one of the major sources of fund for us to meet our payment obligations to suppliers and subcontractors, in the event that our customers delay in their payments, we will need to rely on our remaining financial resources such as cash and bank balances and bank borrowings to meet our payment obligations, which in turn would create pressure and potential adverse impact to our liquidity and financial position. Further, in the event that we fail to meet our payment obligations to suppliers and subcontractors, we may face the risk that our suppliers and subcontractors would suspend part or all of their works or reduce their rate of progress as allowed under the proposed SOPL, which in turn, would affect our performance in projects and result in an adverse impact on our operations.

RISK FACTORS

As at the Latest Practicable Date, the final terms and legislation timetable of SOPL has not yet been announced. Any further changes to the scope of SOPL may have an adverse impact to our operations and financial positions.

RISKS RELATING TO CONDUCTING OPERATIONS IN HONG KONG

Recent measures of the Hong Kong Government may have material adverse effect on the demand of our service

The Hong Kong Government has introduced certain measures which may curb speculation or reduce transaction volume in the property market. For instance, the imposition of special stamp duty and buyer's stamp duty has increased the transaction cost of purchases of residential properties and may deter potential property buyers and investors from acquiring residential properties. Measures implemented by the Hong Kong Government to slow down the pace of growth of the property market in Hong Kong may negatively affect the market and consequently impede the growth of the local property development industry. Measures that were introduced and those that may be introduced by the Hong Kong Government may lead to severe changes in market conditions and decreased demand for properties in Hong Kong, and in turn affect the property development market. Any weakening in the Hong Kong property development sector could affect the demand for our services and in such an event adversely affect our financial condition and results of operations.

Economic, political and social considerations

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

Our business may be adversely affected by further increases in interest rates and the availability of mortgage financing

An increase in interest rates and any further increases in interest rates may significantly increase the cost of mortgage financing, thus affecting the affordability of properties in Hong Kong. The Hong Kong Government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. If the availability or attractiveness of mortgage financing is reduced or limited that affect adversely the property market, our business, liquidity and results of operations could be indirectly but adversely affected.

RISKS RELATING TO THE SHARES AND THE SHARE OFFER

Investors will experience immediate dilution

Because the Offer Price of our Shares is higher than the net tangible book value per Share immediately prior to the Share Offer, purchasers of our Shares in the Share Offer will experience an immediate dilution in the unaudited pro forma adjusted combined net tangible assets value to

RISK FACTORS

approximately HK\$0.11 to approximately HK\$0.13 per Share, based on the Offer Price of HK\$0.40 (being the low-end of the Offer Price range) to HK\$0.50 (being the high-end of the Offer Price range) per Share.

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

Immediately following the Capitalisation Issue and the Share Offer, our Controlling Shareholders will beneficially hold an aggregate of approximately 75% of the Shares in issue (without taking into account the Shares, if any, to be allotted and issued pursuant to the exercise of the Over-allotment Option). The interests of the Controlling Shareholders may differ from the interests of the other Shareholders. There is no assurance that the Controlling Shareholders will act in our best interests or that of the minority Shareholders. If there is any conflict of interests between the Controlling Shareholders and the minority Shareholders, the Controlling Shareholders may have power to prevent us from proceeding with any proposed transactions at the general meeting which could be beneficial to us and other Shareholders, regardless of the underlying reasons.

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

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

An active trading market for our Shares may not develop

Prior to the Listing, there was no public market for our Shares. The Offer Price is the result of negotiations between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), and may differ from the market prices of the Shares after the Listing. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for the Shares.

The trading volume and share price of our Shares may be volatile

The price and trading volume of our Shares may be volatile. Factors such as variations in our earnings, turnover and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in prices for our stoneworks and ancillary services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. In addition, the market price of the Shares may also fluctuate significantly and rapidly as a result of factors which are beyond our control.

Furthermore, stock markets and the shares of some listed companies in Hong Kong have experienced increasing price and volume fluctuations in recent years, some of which may have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of the Shares.

RISK FACTORS

Our plans for future dividend policy and payments are subject to the discretion of our Board

The amount of dividends that we may declare and pay to our Shareholders in the future will be subject to the discretion of our Board and depends on our earnings, cash flow, financial position, distributable reserves, capital requirements, working capital and other conditions that our Directors deem relevant. The amount of distributions that any company within our Group has paid in the past may not be used as an indication to the dividends that we will pay in the future.

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 Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles, the Companies Law and common law applicable in 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 Cayman Islands company law on protection of minorities is set out in the section headed "Summary of the constitution of our Company and Cayman Islands Company Law — 3. Cayman Islands Company Law" in Appendix III to this Prospectus.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

No undue reliance should be placed by prospective investors on industry and market overview and statistics derived from official government publications contained in this prospectus

Certain statistics, facts, data and forecasts presented in the section headed "Industry overview" and elsewhere in this Prospectus including those relating to Hong Kong, the Hong Kong economy and the industry have been derived, in part, from various publications and industry-related sources prepared by governmental officials or Independent Third Parties. Such statistics, facts, data and forecasts have not been independently verified by our Group, our Directors, the Sole Sponsor, the Joint Bookrunners, nor any of the parties involved in the Share Offer and no representation is given as to their accuracy and completeness, as such these information should not be unduly relied upon.

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

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

RISK FACTORS

Investors should read this entire Prospectus carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the Share Offer including, in particular, any financial projections, valuations or other forward looking statement

Prior to the publication of this Prospectus, there may be press or other media, which contains certain information referring to us and the Share Offer that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “**Professional Parties**”) involved in the Share Offer has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to subscribe for the Offer Shares. You should rely only on the information contained in this prospectus and the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Future (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public 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 material 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.

INFORMATION ON THE SHARE 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 conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Share Offer. Neither the delivery of this Prospectus nor any offering, sale or delivery made in connection with our Shares shall, 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 in this Prospectus is correct as of any subsequent time.

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, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this Prospectus and on the relevant Application Forms.

UNDERWRITING

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 Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriter(s) under the terms of the Public Offering Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us. The Share Offer is managed by the Joint Bookrunners.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date, the Share Offer will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this Prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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 and the Application Forms, and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Public Offer Shares or the distribution of this Prospectus and the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this Prospectus and the 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, the Application Forms 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 authorisation by the relevant regulatory authorities or an exemption therefrom.

ELIGIBILITY FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange 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 participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and the permission to deal in, our Shares (i) in issue as at the date of this Prospectus; (ii) to be issued pursuant to the Share Offer; and (iii) to be issued upon exercise of the Over-allotment Option.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

SHARE REGISTRAR AND STAMP DUTY

All Shares issued pursuant to applications made in the Share Offer will be registered on our Company's register of members to be maintained in Hong Kong by our Hong Kong Share Registrar, Tricor Investor Services Limited.

Our Shares are considered as Hong Kong stock for the purpose of the Stamp Duty Ordinance. Dealings in our Shares registered on our Hong Kong share register will be subject to stamp duty in Hong Kong.

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 or holding of and dealing in the Offer Shares. None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, 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 for, purchase or holding of, or dealing in the Offer Shares.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Further information on the structure and conditions of the Share Offer is set out in the section headed "Structure and conditions of the Share Offer" in this Prospectus.

LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail.

CURRENCY TRANSLATION

Unless otherwise specified, translations of RMB into HK\$ in the Prospectus is based on the exchange rate set out below:

HK\$1 = RMB0.78 (for illustration purpose only)

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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DIRECTORS

Name	Residential address	Nationality
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Executive Directors

Mr. Lui Yue Yun Gary (雷雨潤)	House 2, No. 7 Ma Yeung Path Sha Tin, Hong Kong	Chinese
Mr. Siu Chi Fung Stephen (蕭智豐)	Flat D, 6/F, 2 Braemar Hill Road Hong Kong	Chinese
Ms. Lui Po Kwan Joyce (雷寶筠)	House 2, No. 7 Ma Yeung Path Sha Tin, Hong Kong	Chinese

Non-executive Directors

Mr. Leung Lai Sang Ellis (梁勵生)	Flat E, 29/F, Block 1 1 Tsun King Road Royal Ascot, Sha Tin New Territories, Hong Kong	Chinese
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Independent non-executive Directors

Mr. Ko Tsz Kin (高子健)	Flat E, 16/F, Tower 30 South Horizons No. 30 Yi Nam Road Hong Kong	Chinese
Mr. Choi Hok Ya (蔡學銳)	Flat A, 9/F, Block B, Phase I Li Hu Ju Dongguan, PRC	Chinese
Mr. Ng Yau Wah Daniel (吳又華)	Flat A, 23/F 3 Repulse Bay Road Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Further information is disclosed in the section headed “Directors and senior management” in this Prospectus.

Sole Sponsor

WAG Worldsec Corporate Finance Limited
Suite 1101, 11/F, Champion Tower
3 Garden Road, Central
Hong Kong

Joint Bookrunners

Huajin Securities (International) Limited
Suite 1101, 11/F, Champion Tower
3 Garden Road, Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II
16–18 Queen’s Road Central
Hong Kong

Aristo Securities Limited
Room 101, 1/F, On Hong Commercial Building
145 Hennessy Road
Wan Chai, Hong Kong

Joint Lead Managers

Huajin Securities (International) Limited
Suite 1101, 11/F, Champion Tower
3 Garden Road, Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II
16–18 Queen’s Road Central
Hong Kong

Aristo Securities Limited
Room 101, 1/F, On Hong Commercial Building
145 Hennessy Road
Wan Chai, Hong Kong

Quasar Securities Co., Limited
Unit A, 12/F, Harbour Commercial Building
122–124 Connaught Road Central
Hong Kong

Co-Managers

Alpha Financial Group Limited
Room A, 17/F, Fortune House
61 Connaught Road Central
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Frontpage Capital Limited
26/F, Siu On Centre
188 Lockhart Road
Wan Chai, Hong Kong

I Win Securities Limited
Room 1916, Hong Kong Plaza
188 Connaught Road West
Sai Wan, Hong Kong

Lego Securities Limited
Room 301, 3/F, China Building
29 Queen's Road Central
Central, Hong Kong

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

As to Hong Kong law:
Deacons
5th Floor, Alexandra House
18 Chater Road,
Central,
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Robertsons
57/F, The Center,
99 Queen's Road Central
Hong Kong

As to PRC law:
Allbright Law Offices (Shenzhen)
22, 23/F., Tower 1, Excellence Century Center
Fu Hua 3 Road
Futian District
Shenzhen, China 518048

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Auditor and reporting accountant	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong
Industry Consultant	China Insights Consultancy Limited 10/F, Tomorrow Square 399 West Nanjing Road Huangpu District Shanghai PRC
Independent Internal Control Adviser	C.W. Fan & Co. Limited 25/F., Tern Centre, Tower One 237-251 Queen's Road Central Hong Kong
Compliance adviser	WAG Worldsec Corporate Finance Limited Suite 1101, 11/F, Champion Tower 3 Garden Road, Central Hong Kong
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Unit 2302, 23/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong
Company website	www.anchorstone.com.hk <i>(Information on this website does not form part of this Prospectus)</i>
Company secretary	Mr. Fung Wai Hang (HKICPA) Flat H, 15/F, Block 2 Fullview Garden Siu Sai Wan Hong Kong
Authorised representatives	Mr. Lui Yue Yun Gary House 2, No. 7 Ma Yeung Path Sha Tin, Hong Kong Mr. Siu Chi Fung Stephen Flat D, 6/F, 2 Braemar Hill Road Hong Kong
Audit committee	Mr. Ko Tsz Kin (<i>Chairman</i>) Mr. Choi Hok Ya Mr. Ng Yau Wah Daniel
Remuneration committee	Mr. Ng Yau Wah Daniel (<i>Chairman</i>) Mr. Ko Tsz Kin Mr. Lui Yue Yun Gary
Nomination committee	Mr. Lui Yue Yun Gary (<i>Chairman</i>) Mr. Ko Tsz Kin Mr. Ng Yau Wah Daniel
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal bankers

Hang Seng Bank
83 Des Voeux Road Central
Hong Kong

Chong Hing Bank Limited
Chong Hing Bank Centre
24 Des Voeux Road Central
Hong Kong

INDUSTRY OVERVIEW

The information presented in this section is, including certain facts, statistics and data, derived from the CIC Report prepared by China Insights Consultancy Limited (“CIC”), which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy, completeness or fairness. The information and statistics may not be consistent with other information and statistics compiled within or outside of Hong Kong. As a result, excessive reliance on the information contained in this section shall be avoided.

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 marble and granite works market for the period from 2012 to 2021 (forecast). The fee payable to CIC for preparing the CIC Report is HK\$910,000, 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 International Monetary Fund (“IMF”) and Hong Kong Census and Statistics Department. 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 China is expected to remain stable in the forecast period; (ii) Hong Kong’s economy is likely to maintain a steady growth in the next decade with ongoing urbanisation; and (iii) related industry key drivers are likely to drive the Hong Kong’s marble and granite works market in the forecast period, such as growing demand generated by the tourism industry, higher standards of stone works industry, demand and awareness of property management and retrofit and mega projects initiated by the government; (iv) there is no any extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally.

INDUSTRY OVERVIEW

The CIC Report mainly focuses on the Hong Kong market, being the main jurisdiction in which our business are located. Our Directors confirm that after taking reasonable care, there is 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. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

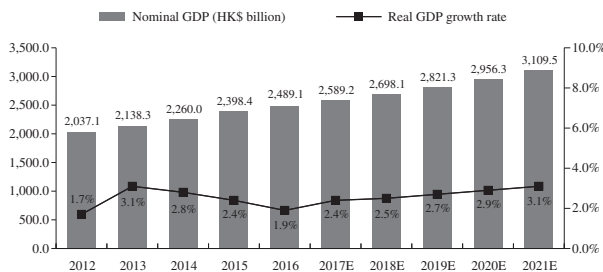
ECONOMIC DEVELOPMENT OF HONG KONG

Hong Kong's nominal GDP and per capita nominal GDP

Hong Kong's nominal GDP grew from approximately HK\$2,037.1 billion to approximately HK\$2,489.1 billion with a CAGR of 5.1% between 2012 and 2016. The economy is expected to grow at a CAGR of 4.6% and to reach a GDP of approximately HK\$3,109.5 billion by 2021. As announced in 2017 Hong Kong Policy Address, the government set up a long-term plan to deepen economic linkages with mainland China, enhance strengths in pillar industries, promote new growth areas as well as upgrade human capital and infrastructure to uphold productivity and competitiveness of Hong Kong.

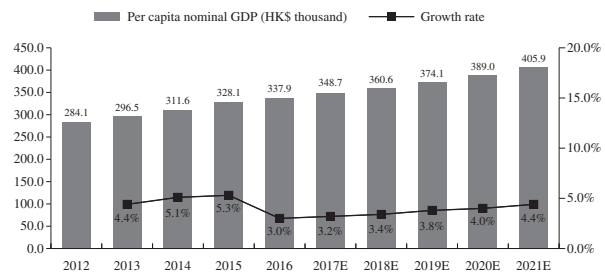
Hong Kong's per capita nominal GDP rose to approximately HK\$337,900 in 2016 with a CAGR of 4.4% from approximately HK\$284,100 in 2012 and is forecasted to grow steadily to about HK\$405,900 by 2021 with a CAGR of 3.7%. With increasing purchasing power, people tend to pursue a high-quality living environment which will consequently promote the development of construction projects, especially those in upscale sector.

**Nominal GDP and real growth, Hong Kong,
2012–2021E**



Source: IMF

**Per capita nominal GDP, Hong Kong,
2012–2021E**



Source: IMF

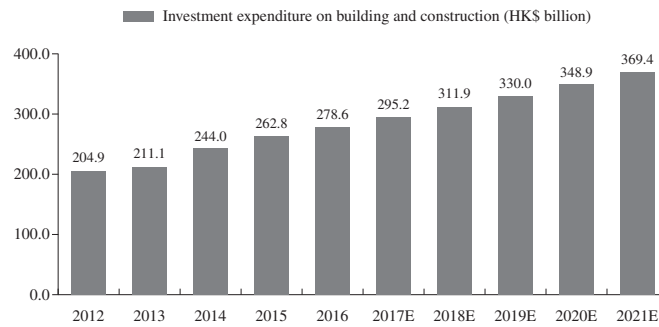
Hong Kong's investment expenditure on building and construction

According to the Census and Statistics Department of the Hong Kong government, the investment expenditure on building and construction increased from HK\$204.9 billion in 2012 to HK\$278.6 billion in 2016, representing a CAGR of 8.0%. The Ten Major Infrastructure Projects, first proposed by the Hong Kong government in 2007, were being rolled out in phases as scheduled, which boosted the construction market in Hong Kong. Moreover, according to the housing supply plan of the Hong Kong government, it has set a target to supply 470,000 new residential units by 2025. This measure aims to alleviate the shortage of housing units and stimulate the growth of the construction industry.

Over the forecast period, the investment expenditure on building and construction is expected to maintain a continuous steady growth and is estimated to reach HK\$369.4 billion by 2021 at a CAGR of 5.2% from 2016 to 2021.

INDUSTRY OVERVIEW

Investment expenditure on building and construction, Hong Kong, 2012–2021E



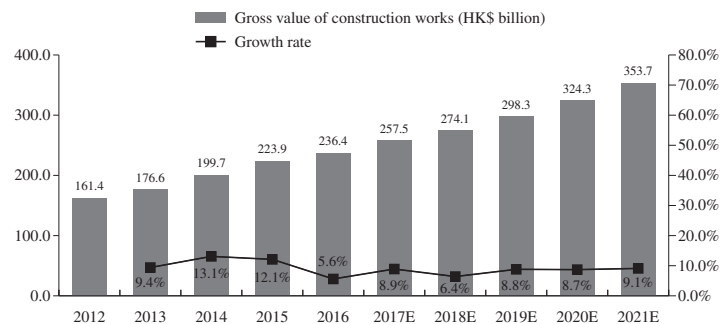
Source: HKC&SD, CIC

DEVELOPMENT OF CONSTRUCTION INDUSTRY IN HONG KONG

Gross value of construction works in Hong Kong

Hong Kong's construction industry has shown strong growth with the gross value of construction works in Hong Kong increasing from HK\$161.4 billion in 2012 to HK\$236.4 billion in 2016, representing a CAGR of 10.0%. This prosperous trend was not only driven by massive infrastructure developments and housing programmes in public sector but also the expansion plans of private developers to meet the market demands. Large quantity of new public and private sector projects will further stimulate the development of the market. Construction activities are expected to remain at a high level in the coming five years and the gross value of construction works is expected to register a CAGR of 8.4% reaching HK\$353.7 billion by 2021.

Gross value of construction works, Hong Kong, 2012–2021E



Source: HKC&SD, CIC

Market trends of construction industry in Hong Kong

The following are the future trends of construction industry in Hong Kong:

- (i) **Increasing land supply:** Various initiatives of the Hong Kong government, such as the development plan of Lantau and New Territories North, potential projects of reclamation on an appropriate scale outside Victoria Harbour, development of artificial islands in the central waters as well as the use of rock cavern and underground space, provide ample land supply which supports the growth of construction industry in Hong Kong.

INDUSTRY OVERVIEW

- (ii) ***The construction market will be dominated by residential projects:*** According to Hong Kong government's latest housing supply plan, a goal was set to supply 470,000 new residential units by 2025 in order to alleviate the current situation of the housing shortage. This policy will support the further development of the construction industry in Hong Kong.
- (iii) ***Further expansion will be limited by labour shortage:*** Labour shortage in Hong Kong construction industry is primarily attributable to a decrease in the number of new workers entering the construction industry and the retirement of current workers whilst there is an increase in demand for construction workers arising from the growth in the scale and number of construction projects being undertaken in Hong Kong. Even though the Hong Kong government has launched relevant policies to counter the labour crisis, for example, the Supplementary Labour Scheme, which allows employers with difficulties in finding suitable local staff to import workers, it is expected that the shortage will not be eased in the short term.
- (iv) ***New momentum from public infrastructure:*** Apart from the Ten Major Infrastructure Projects announced by the Hong Kong government in 2007, the implementation of the "Belt and Road" Initiative and National thirteenth Five-Year Plan also promotes increasing infrastructure investment in Hong Kong to enhance the connection between Hong Kong and the surrounding cities. As such, the demand for construction service in Hong Kong, particularly from the public sector, will remain high.
- (v) ***Increasing demand for high-end residential projects:*** Hong Kong enjoyed reputation for its developed economy and leading position in Asia in terms of per capita GDP. With the steady growth of Hong Kong's per capita GDP, it is expected that people in Hong Kong will be more willing to pursue living environments of a higher standard, which raises the demand of the high-end residential projects.
- (vi) ***Increasing number of renovation projects for old buildings:*** The Hong Kong government has raised concerns over the safety and functionality of older buildings in Hong Kong and the need of renovation and rebuilding. According to the building conditions survey and projections of Urban Renewal Authority (URA), buildings aged 30 years or above were about 5,700 in "poor" or "varied" conditions. It is expected that the number of ageing buildings will rise to 34,000 in 2034, and with URA's rehabilitation plan, the number of buildings in "poor" or "varied" conditions will drop to 3,100 in 2034. In 2015/16 and up to 30 June 2016, there were 59 implemented redevelopment projects in progress, and 710 dilapidated buildings were going to be redeveloped. With the "Operation Building Bright" which was announced in 2009, as well as the great importance that Hong Kong government attached to old buildings, the redevelopment and rehabilitation of ageing buildings are expected to further spur the demand for construction works.

INDUSTRY OVERVIEW

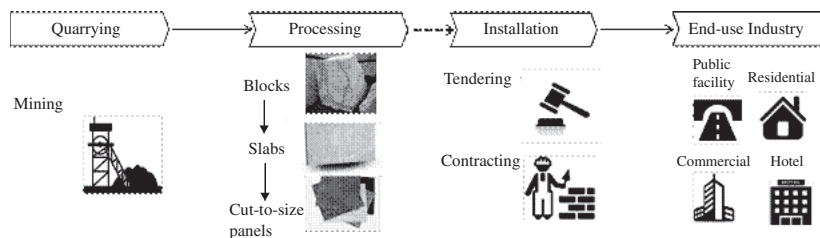
OVERVIEW OF HONG KONG'S MARBLE AND GRANITE WORKS MARKET

Introduction of marble and granite

Commercially in the stone industry, marble refers to crystalline rocks under a wide range of classifications, including calcite, dolomite, serpentine and travertine, and also includes limestones that is polishable. Marble can be found in a variety of colours, such as white, yellow, green, red and black due to its mineral impurities. Commercially in the stone industry, the granite group includes most igneous rocks, such as gabbro, gneiss and basalt. Granites can be predominantly white, pink, or grey in colour, depending on their mineralogy.

Marble and granite have been used as decorative building materials for decades as panels for walls, floors, columns, and countertops. Stone decoration has been popular due to its high durability and aesthetic qualities. In recent years, stones have become a general building material for both indoor and outdoor use as stone availability increases globally. Stones are most widely used in kitchens, bathrooms and lobbies, as well as outdoor such as external walls and stairs.

Value chain of marble and granite works market



Quarrying: There is no marble or granite mine in Hong Kong and therefore the region relies solely on imports for stone products. The procurement of stones from mine owners does not normally involve tendering process, while some mine owners would enter into exclusive contracts with their customers. Some stone-work subcontractors are actively involved the procurement of raw materials such as stone selection, conducting site visit and price negotiation with quarry owners in order to control the quality and costs and they may engage sourcing agents to assist them in the procurement. Although the use of sourcing agents increases the cost of raw materials, they usually have a wider network with mine owners.

Processing: Processing is the production process of standard or cut-to-size panels from stone blocks extracted from mines. There are a very few stone processing factories in Hong Kong due to the high labour cost. Stone-work subcontractors in Hong Kong usually purchase processed stone products from China, or they may purchase raw materials from mine owners directly and then engage third-party contractors in China, which are mainly located in Shuitou, Fujian and Yunfu, Guangdong, to process the stones. By the end of 2016, there were about 2,800 stone processing companies with annual sales revenue of RMB20.0 million or above in the PRC. The average processing fee charged by these companies was RMB45 per m² in 2016. In general, there is no shortage in stone processing workers in the PRC.

INDUSTRY OVERVIEW

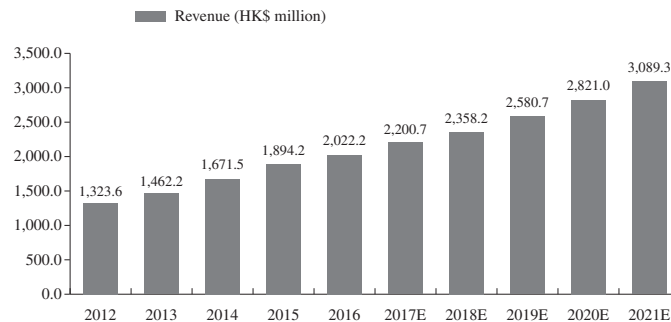
Installation: In general, the contracting of stone works projects needs to go through a tender process where the property owner/developer or the main-contractor determines which stone-work subcontractor to be engaged. The designer would choose the colours, shapes and types of stones for the project, and the stone-work subcontractor may also give advice. It is common in the industry in Hong Kong that the stone-work subcontractors outsource the installation work to other third party subcontractors.

End-use industry: End-use industry of marble and granite works includes new constructions and renovation projects on public facilities, residential and commercial buildings, and hotels. In Hong Kong, residential buildings is the largest end-use sector in stone works market in 2016.

Market size of Hong Kong's marble and granite works market

Since marble and granite works is part of the construction and decoration of buildings and other landscapes, Hong Kong's marble and granite works market is highly dependent on the new construction completions each year.

Market size of marble and granite works market, Hong Kong, 2012–2021E



Source: CIC

The market size of marble and granite works market in Hong Kong in terms of revenue grew from HK\$1,323.6 million in 2012 to HK\$2,022.2 million in 2016 with a CAGR of 11.2% from 2012 to 2016. The major end-use industries were the new construction and renovation of residential, commercial, public facility and hotel projects, taking up about 59%, 27%, 9% and 5% of the market share in 2016, respectively. From 2016 to 2021, Hong Kong's marble and granite works market is expected to grow further to HK\$3,089.3 million in 2021 with a CAGR of 8.8%.

Drivers of Hong Kong's marble and granite works market

Set out below are the main factors that drive the Hong Kong marble and granite works market:

- (i) **Growing demand generated by economic development and tourism:** Hong Kong has been recognised as a well-established international financial centre, tourism destination, transport hub and shopping paradise, attracting numerous tourists and visitors each year. As a result, the demand for hotels and shopping malls has been increasing accordingly. According to the Hong Kong Tourism Board, there were 257 hotels with 74,000 rooms in Hong Kong as of

INDUSTRY OVERVIEW

May 2016 and it is expected that there will be around 305 hotels and around 84,000 rooms by 2019. The continuous growing number of hotels will create a large demand in marble and granite works market.

- (ii) ***Higher standard of stone works industry:*** Alongside the economic development of Hong Kong, the standard of stone works business has been raised as there are more high-end properties. Marble and granite are traditionally viewed as luxury materials for building construction and decoration. The marble and granite works market is expected to be stimulated by the higher standard of construction materials and increasing demand for high-end properties.
- (iii) ***Demand and awareness of property management and retrofit:*** Many commercial and residential properties in Hong Kong were built decades ago and require to be retrofitted after years of operation and use. The increasing awareness of the importance of property management and maintenance drives the demand of retrofit and thus, the marble and granite works market is expected to be stimulated.
- (iv) ***Mega projects initiated by the government:*** The marble and granite works market is expected to benefit from the mega projects carried out by the Hong Kong government. For example, the West Kowloon Cultural District project and Kai Tak Development project as part of the Ten Major Infrastructure Projects are expected to create demand for marble and granite works in the next few years.

Industry outlook and development of Hong Kong's marble and granite works market

Set out below are the market trends in Hong Kong's marble and granite works market:

- (i) ***Increasing demand from public sector:*** Hong Kong marble and granite works contractors traditionally receive the majority of contracts from the private sector. However, with further emphasis of the Hong Kong government on the importance of infrastructure projects such as the Ten Major Infrastructure Projects, it is expected that the demand from public sector will increase accordingly in the future.
- (ii) ***Increasing demand for high-end marble and granite products:*** In light of the economic development and high income level in Hong Kong, expensive and good quality marble and granite products, especially those imported from Italy or Turkey, are becoming more popular for use in construction and decoration of buildings. It is expected that such trend will continue and further increase the demand for high-end marble and granite products.
- (iii) ***Increasing focus on the quality of construction works:*** As there are more sizeable and high-end property development projects in Hong Kong, property owners and main contractors are increasingly focus on the quality of marble and granite works such as safety, timely delivery of work, the material quality and design of the works. Market participants are expected to compete more based on the quality of service provided rather than the price.

INDUSTRY OVERVIEW

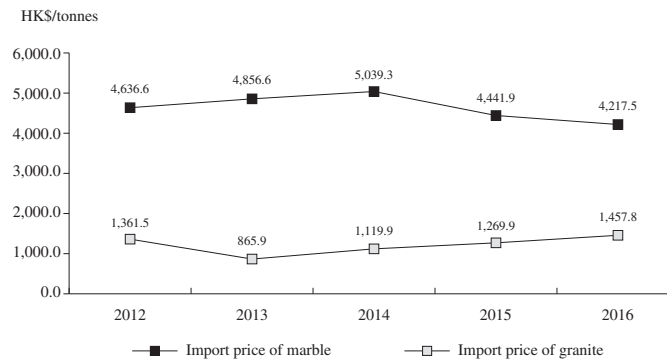
- (iv) **Vertical integration:** In order to survive in the Hong Kong marble and granite works market, increasing number of market participants are expanding to the upstream marble and stone market. With such vertical integration, these companies are able to secure the supply of raw materials and thus achieve a competitive cost structure as well as higher profit margin.

- (v) **New products with lower costs:** Growing demand for products with lower cost leads to the innovation of marble and granite products. Emerging products such as marble patch on the surface of ceramic are cheaper to be produced and yet able to provide the aesthetic appearance of high-end marbles. Companies within the industry are expected to focus more on research and development on new products.

- (vi) **Natural marble remain dominant in the market:** Although artificial stone has the advantage of easily duplicable and lower price, natural marble will remain dominant in the market in the foreseeable future. Natural marbles are chosen as decorative materials not only because of its classy style but also because it represents wealth and status due to its scarcity and higher price. Artificial stones can never achieve the purpose of the latter, and will therefore be less preferred.

Average price of Hong Kong's marble and granite

Average import price of marble and granite, Hong Kong, 2012–2016



Source: HKC&SD, CIC

Since there is no marble mine in Hong Kong, the import price of marble blocks determines the cost of marble in the region. Nearly 90% of the marble imported to Hong Kong were from China from 2012 to 2016 and the average price of imported marble in Hong Kong remained relatively stable with HK\$4,636.6 per tonnes to HK\$4,217.5 per tonnes during such period. There can be many factors affecting the import price, such as the demand and supply of a specific type of marble, and the relevant exchange rate with Hong Kong dollars.

The import price of granite was generally lower than that of marble. China, Brazil and India were the major countries that exported granite to Hong Kong from 2012 to 2016, accounting for an aggregate share of more than 99.0% in Hong Kong's granite market during the same period. From 2012 to 2016, Hong Kong's average import price of granite increased from HK\$1,361.5 per tonnes to HK\$1,457.8 per tonnes, with a slight decrease in 2013 which was mainly a result of the high import volume in that year

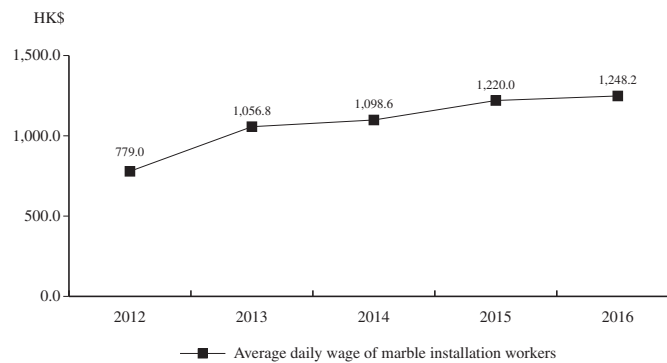
INDUSTRY OVERVIEW

pushing the price down due to bulk purchase arrangement. As the market is relatively concentrated, a few relatively large projects can affect the import volume greatly. The increased import volume in 2013 was possibly caused by some large construction projects that year.

Average wage of Hong Kong's marble installation workers

In Hong Kong, marble installation workers are employed by the installation subcontractors and the marble and granite works contractors normally engage the installation subcontractors instead of the marble workers directly. As Hong Kong's economy is expected to keep growing in the next five years, the wage of marble installation worker is also expected to increase accordingly. Average daily wage of marble installation workers in Hong Kong rose from HK\$779.0 in 2012 to HK\$1,248.2 in 2016 with a CAGR of 12.5%.

Average daily wage of marble installation workers, Hong Kong, 2012–2016



Source: HKC&SD, CIC

COMPETITIVE LANDSCAPE OF HONG KONG'S MARBLE AND GRANITE WORKS MARKET

There are no particular licencing or registration requirements for marble and granite works subcontractors to carry out stone works in both public and private sectors in Hong Kong. The Hong Kong marble and granite works market is concentrated. There were about 50 marble and granite works contractors in Hong Kong in 2016, with the top five companies accounting for an aggregate market share of 50.8% in the same year.

The following table sets forth the major marble and granite works contractors in Hong Kong in terms of their revenue in 2016.

Ranking	Company	Revenue (HK\$ million)	Market share
1	Company A	291	14.4%
2	The Group	222	11.0%
3	Company B	198	9.8%
4	Company C	172	8.5%
5	Company D	143	7.1%

Source: CIC

INDUSTRY OVERVIEW

Entry barriers of Hong Kong's marble and granite works market

(i) Proven track record:

Marble and granite works contractors with extensive project experience are more likely to provide services of high quality, thus enjoying good reputation. As a result, proven track record is one of the important factors taken into account by the customer when evaluating a tender submission. Hence, experienced companies are in a better position to obtain the contract compared to the inexperienced new companies, forming a strong entry barrier for the newcomers.

(ii) Downstream customer network:

An extensive customer network can help bring business opportunities to marble and granite works contractors. All leading contractors in Hong Kong marble and granite works industry have good relationships with their customers, including developers, main contractors, sub-contractors and intermediaries such as architects and designers. Furthermore, a good relationship with customers can enhance the long-term cooperation between the contractors and their customers, providing stable project volume and minimising the recovery period of trade receivables to the contractors.

(iii) Access to mine owners:

The ability to source various types of marble and granite with competitive price is critical to marble and granite works contractors as it affects the cost. A lower price can be obtained if the contractor can order materials directly from the mine owners. In addition, a good relationship between the contractor and mine owners also facilitates the quality control of the raw materials.

(iv) Sufficient capital:

Contractors in Hong Kong's marble and granite works industry need sufficient capital to pay various kinds of expenses for their projects, such as construction materials costs, transportation costs, leasing and/or purchasing of machinery, wages of specialists as well as subcontracting fees. Furthermore, any delay in payment may adversely affect the company's reputation and the project progress. For new entrants, it would be difficult to compete in the market if they lack sufficient capital.

Our competitive strengths

Our Directors believe that our competitive strengths have contributed to our success in the marble and granite stone works industry. Some of our competitive strengths include our established reputation and proven track record, our substantial expertise and knowhow in marble and granite and our wide network with our suppliers and subcontractors. Please see the section headed "Business — Competitive strengths" in this prospectus for further details.

LAWS AND REGULATIONS

REGULATORY REQUIREMENTS IN HONG KONG

We are a leading and well-established subcontractor in Hong Kong specialising primarily in supply and installation of marble and granite for construction projects. As at the Latest Practicable Date, there was no statutory or mandatory licencing and qualification system governing the provision of such business.

Below sets out a summary of certain aspects of the Hong Kong laws and regulations which are relevant to our Group's operation and business.

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

The mandatory provident fund scheme ("MPF Scheme") is defined contribution retirement scheme managed by authorised independent trustees. The Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) provides that an employer shall participate in an MPF Scheme and make contributions for its employees aged between 18 and 65. Under the MPF Scheme, an employer and its employee are both required to contribute 5% of the employee's monthly relevant income as mandatory contribution for and in respect of the employee, subject to the minimum and maximum relevant income levels for contribution purposes. The current maximum amount of mandatory contribution payable by an employer is HK\$1,500 per month.

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

A principal contractor and a superior subcontractor are 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 subcontractors jointly and severally. Such liability shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the principal contractor and/or superior subcontractor has contracted to perform and whose place of employment is wholly on the site of the building works; and (b) to the wages due to such an employee for two months without any deductions under the Employment Ordinance (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 subcontractor must serve a notice in writing on the principal contractor within 60 days after the wage due date.

A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of the subcontractor if that employee fails to serve a notice on the principal contractor.

Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware. A principal contractor who without reasonable excuse fails to serve notice on the superior subcontractors shall be guilty of an offence and shall be liable on conviction to a fine at currently at up to HK\$50,000.

LAWS AND REGULATIONS

Pursuant to Section 43F of the Employment Ordinance, if a principal contractor or superior subcontractor pays to an employee any wages under Section 43C of 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 (i) 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 (ii) 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.

Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong)

The Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong) 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 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction to a fine of HK\$100,000 and imprisonment for two years.

According to Section 48 of the Employees' Compensation Ordinance, an employer shall not, without the consent of the Commissioner for Labour, terminate, or give notice to terminate, the contract of service of an employee (who has suffered incapacity or temporary incapacity in circumstances which entitle him to compensation under the Employees' Compensation Ordinance) before occurrence of certain events. Any person who commits breach of this provision is liable on conviction to a maximum fine of HK\$100,000.

Minimum Wage Ordinance (Chapter 608 of the laws of Hong Kong)

The Minimum Wage Ordinance (Chapter 608 of the laws of Hong Kong) provides for a prescribed minimum hourly wage. The current statutory minimum wage (effective from 1 May 2017) is set at HK\$34.5 per hour for every employee employed under the Employment Ordinance (Chapter 57 of the laws of Hong Kong). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

LAWS AND REGULATIONS

Occupiers Liability Ordinance (Chapter 314 of the laws of Hong Kong)

The Occupiers Liability Ordinance (Chapter 314 of the laws of Hong Kong) regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of a premise to take reasonable care of the premise in all circumstances so as to ensure that his 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.

Occupational Safety and Health Ordinance (Chapter 509 of the laws of Hong Kong)

The Occupational Safety and Health Ordinance (Chapter 509 of the laws of Hong Kong) provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces:

- (a) providing and maintaining plant and work systems that are safe and without risks to health;
- (b) making arrangement for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- (c) providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- (d) providing and maintaining safe access to and egress from the workplaces; and
- (e) providing and maintaining a 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 6 months.

The Commissioner for Labour may also issue improvement notices against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance (Chapter 59 of the laws of Hong Kong), 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 and to a further time of HK\$50,000 for each day or part of a day during which the offender knowingly and intentionally continues the contravention, respectively and imprisonment of up to one year.

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

The CWRO provides for the registration of construction worker and related matters. According to section 3 of the CWRO, no person shall personally carry out construction work on a construction site unless that person is a registered construction workers. Any person who contravenes this requirement

LAWS AND REGULATIONS

commits an offence and is liable on conviction to a fine of HK\$10,000. Further, section 5 of the CWRO provides that no person shall employ unregistered construction workers to carry out on construction sites construction work. Any person who contravenes this requirement commits an offence and is liable on conviction to a fine of HK\$50,000.

According to section 58(7)(a) of the CWRO, a principal contractor/controller of a construction site is required to establish and maintain a site daily record in the specified form that contains information on registered construction workers employed by him or, if he is the principal contractor, his subcontractor. Further, section 58(7)(b) of the CWRO provides that a principal contractor/controller of a construction site is required to furnish the Registrar of Construction Workers in such manner as directed by the Registrar of Construction Workers with a copy of the report for the period of seven days after any construction work begins on the site and for each successive period of seven days, within two business days following the last day of each of the period concerned. A person who, without reasonable excuse, contravenes section 58 of the CWRO commits an offence and is liable on conviction to a fine of HK\$10,000.

On 1 April 2017, the implementation of “designated workers for designated skills” by Construction Workers Registration (Amendment) Ordinance 2014 (commenced in April 2015) took place. All workers must register as registered skill or semi-skilled workers of designated trade divisions, including, among others, marble workers (master, polishing, dry fixing and wet fixing), to carry out construction works of those trade divisions on construction sites.

As at the Latest Practicable Date, all of our site staff carrying out construction works on construction sites were registered as registered construction worker under the CWRO.

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

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in the industrial sector including factories, construction sites and other industrial workplaces. Every proprietor is under a general duty to ensure, so far as is reasonably practicable, the health and safety at work of all persons employed by the proprietor. Failure to comply with the duties constitute an offence and is liable to a fine of HK\$500,000. A proprietor who fails to comply with the duties willfully and without reasonable excuse is liable to a fine of HK\$500,000 and to imprisonment for 6 months.

Pursuant to section 6BA(5) of the Factories and Industrial Undertakings Ordinance, a proprietor of the relevant industrial undertaking shall not employ relevant person who has not been issued a relevant safety training certificate relevant to the undertaking or whose relevant certificate has expired. It would be an offence if a proprietor contravenes the requirement under this section and is liable to a fine of HK\$50,000.

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

Pursuant to Section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor or subcontractor) 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. “Construction

LAWS AND REGULATIONS

site” is defined under the Immigration Ordinance to mean a place where construction work is undertaken and includes any area in the immediate vicinity which is used for the storage of materials or plants used or intended to be used for the purpose of the construction work.

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.

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

The Waste Disposal Ordinance regulates the production, storage, collection, treatment, reprocessing, recycling and disposal of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful deposition of waste is prohibited. Import and export of waste into and from Hong Kong is generally controlled through a permit system.

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, including without limitation the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, construction waste can only be disposed at designated prescribed facilities and a main contractor who undertakes construction work with a value of HK\$1 million or above will be required, within 21 days after being awarded the contract, to establish a billing account in respect of that particular contract with the Director of the Environmental Protection Department to pay any prescribed charges for the construction waste generated from the construction work under that contract.

For construction work under a contract with value less than HK\$1 million, such as minor construction or renovation work, any person such as the owner of the premises where the construction work takes place or his/her contractor can open a billing account; the account can also be used for contracts each with value less than HK\$1 million. The premises owner concerned may also engage a contractor with a valid billing account to make arrangement for disposal of construction waste.

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

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

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits. A contractor

LAWS AND REGULATIONS

shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, particularly the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) and the Air Pollution Control (Smoke) Regulation (Chapter 311C of the Laws of Hong Kong).

The contractor responsible for a construction site (which is defined to mean a place where construction work is carried out and area in the immediate vicinity of any such place which is used for the storage of materials or plant used or intended to be used for the purpose of the construction work) shall devise, arrange methods of working and carrying out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

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

The Noise Control Ordinance controls the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out general construction works. For construction activities that are to be carried out during the restricted hours, construction noise permits are required from the Environmental Protection Department in advance.

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

The Competition Ordinance commenced full operation on 14 December 2015 aiming to prohibit restrictions on competition through three competition rules, namely the First Conduct Rule which prohibits anti-competitive agreements; the Second Conduct Rule which prohibits abuse of market power; and the Merger Rule which prohibits anti-competitive mergers and acquisitions. At present, the First Conduct Rule and the Second Conduct Rule apply to all sectors of the Hong Kong economy whereas the Merger Rule only applies to mergers involving carrier licence holders within the meaning of the Telecommunication Ordinance (Chapter 106 of the Laws of Hong Kong).

The First Conduct Rule prohibits businesses from making or giving effect to an agreement, undertakings, engaging in a concerted practice, or arrangement giving effect to harm competition in Hong Kong. The Second Conduct Rule prohibits businesses with a substantial degree of market power from abusing that power by engaging a conduct that has the object or effect of preventing, restricting or distorting competition in Hong Kong.

The Competition Tribunal may, upon the application by the Competition Commission and is satisfied that there is a contravention of the completion rules, impose pecuniary penalty of any amount it considers appropriate but not exceeding 10% of the turnover of the undertaking concerned for each year in which the contravention occurred for a single contravention, or if the contravention occurred in more than 3 years, 10% of the turnover of the undertaking concerned for the 3 years in which the contravention occurred that saw the highest, second highest and third highest turnover. The Competition Tribunal may make disqualification order disqualifying a person from being a director of a company or from otherwise being concerned in the affairs of a company if the Competition Tribunal is satisfied that a company of which the person is a director contravened a competition rule and the person's conduct as a director makes the person unfit to be concerned in the management of a company. The Competition

LAWS AND REGULATIONS

Tribunal may also make other orders as specified in schedule 3 of the Competition Ordinance. Alternatively, the Competition Commission may, instead of bringing proceedings in the Competition Tribunal in the first instance, issue an infringement notice to the person who contravenes the First Conduct Rule and the contravention involves serious anti-competitive conduct or contravenes the Second Conduct Rule.

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

The Development Bureau of the Government of Hong Kong is proposing a new legislation on security of payment in the construction industry to address unfair payment terms, payment delays and disputes in the construction industry in order to increase cash flow in the contractual chain of a construction project. The Government has completed the public consultation in 2016 and in the event that the SOPL comes into effect, it will likely have an impact on the Hong Kong construction industry and our Group.

The proposed SOPL will apply to all written and oral contracts entered after the enactment of the SOPL where construction works or plant and materials are being supplied for works in Hong Kong. The SOPL will cover all public sector contracts under which construction works or plants and materials are supplied to the Government or public bodies, while SOPL will only apply to the private sector contracts of construction of a “new building(s)” as defined in the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) which the value of the original contract exceeds the HK\$5 million threshold. When SOPL applies to the main contract, it will automatically apply to sub-contracts of all tiers in the contractual chain.

A brief outline of SOPL is as follows:

1. The parties shall be entitled to claim progress payments (which includes single, interim and final progress payments). For an interim progress payment, payment of the amount due must be made within 60 calendar days from the claim being made. For the final progress payment, the payment of the amount due must be made within 120 days from the claim being made;
2. All unfair terms including “pay when paid” terms which effectively violate parties’ rights to progress payments or imposing a longer payment period than the 60 or 120 calendar days respectively shall be deemed ineffective and unenforceable;
3. SOPL provides a quick and cost-effective adjudication system process, operating in parallel to other legal and contractual remedies, which provides a means to resolve disputes in relation to non-payment or extension of time;
4. In the event of non-payment, SOPL introduces a right for parties to suspend all or part of the works or reduce their rate of progress, provided that notice is given to the principal contractor and site owner (if known). Parties which suspend or slow down work for non-payment will have rights to additional time to complete their obligations and to reasonable costs and expenses in respect of delay and disruption arising from the suspension.

It is anticipated that SOPL will assist contractors along the contractual chain which increase cash flows and access to swift dispute resolution process.

HISTORY AND DEVELOPMENT

HISTORY AND DEVELOPMENT

Our business history

We are a leading and well-established subcontractor in Hong Kong specialising primarily in supply and installation of marble and granite for construction projects. Our Group's history can be traced back to December 1991 when Mr. Lui founded PMG (HK) with an Independent Third Party utilising their respective financial resources. Since 1995, our Group has been engaged in the same business and there has been no material change in our business focus.

Prior to establishing PMG (HK), Mr. Lui was involved in stone works business, where he gained knowledge and insight in marble and granite supply and stone installation industry. As at the Latest Practicable Date, Mr. Lui had accumulated over 35 years of knowledge and experience in marble and granite work. For further details relating to Mr. Lui's experience and background, please refer to the section headed "Directors and senior management" of this Prospectus. PMG (HK) is able to capitalise on Mr. Lui's in-depth industry knowledge and business connection at the commencement of its business. Since then, our Group has built up its network of sub-contractors and customers including property developers and main contractors in Hong Kong.

Having accumulated over 22 years' experience in the industry, we have undertaken a number of sizeable stone supply projects and stone supply and installation projects in Hong Kong, which related to (i) hotel renovation and development (including a five-star well-known international hotels); (ii) commercial plazas and office towers; and (iii) residential properties. Our Group has been engaged as the sub-contractor in the construction of several landmark buildings in Hong Kong and has gained maximum exposure in the industry, pursuant to which we have built up our market reputation through our operating subsidiaries, PMG (HK) and PMG. For further particulars on business strategies of our Group, please refer to the section headed "Business — Business strategies" in this Prospectus.

Key milestones of our Group

The following table sets forth major development milestones of our Group:

Year	Development Milestones
1991	PMG (HK) was incorporated
1995	Commencement of trading of marble and granite
2001	PMG (HK) has been accredited as a member of the Marble Institute of America (MIA) and Building Stone Institute (BSI)
2005	Completed for a theme park hotel supply and installation contract in Hong Kong
2011	PMG was incorporated for trading of marble and granite and subcontracting of construction and engineering work of marble and granite
2013	We became the Permanent Official Member of the Hong Kong Marble & Granite Merchants Association

HISTORY AND DEVELOPMENT

Year	Development Milestones
2013	We were awarded the contract for the midfield concourse works for the Hong Kong International Airport
2013	We were awarded with a luxurious residential development project on Mount Nicholson Road, Hong Kong, which is the largest project (in terms of contract sum) we had ever undertaken for residential properties during the Track Record Period
2014	We became a registered subcontractor under the Subcontractors Registration Scheme maintained by the Construction Industry Council
2016	We were awarded with a hotel and commercial complex renovation project in Hong Kong, which is the largest project we had undertaken during the Track Record Period for hotel and commercial property
2017	We engaged in the supply of stone and the related installation project for an ultra-luxurious residential development project located on Barker Road, the Peak

Our corporate history

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 2 February 2016 and became the holding company of Pegasus, PMG and PMG (HK), pursuant to the Reorganisation which was completed on 7 June 2018. Our Group comprises our Company, Pegasus, PMG and PMG (HK), all wholly-owned subsidiaries. Our Group is founded by our Executive Director, Mr. Lui and an Independent Third Party.

Companies within our Group

Our Company

Our Company is an exempted company incorporated in the Cayman Islands with limited liability on 2 February 2016. On incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of a par value of HK\$0.01 each. One Share, representing the then entire issued share capital of our Company, was allotted and issued nil-paid to the initial subscriber of our Company, an Independent Third Party, on the incorporation date. On the same date, the said nil-paid Share was transferred to PMG Investments. As a result, our Company became a wholly-owned subsidiary of PMG Investments.

Our Company has become the ultimate holding company of our Group as a result of the Reorganisation. Our Company principally engages in investment holding.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 March 2016.

HISTORY AND DEVELOPMENT

Pegasus Stone

Pegasus Stone is a limited liability company incorporated in the BVI on 15 December 2015. Pegasus Stone is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On 2 February 2016, our Company subscribed for, and Pegasus Stone allotted and issued to our Company, one share in Pegasus Stone at par. Since then Pegasus Stone has remained a wholly-owned subsidiary of our Company. Pegasus Stone principally engages in investment holding.

PMG (HK)

PMG (HK) was incorporated on 19 December 1991 as a limited liability company with an authorised share capital of HK\$50,000 divided into 50,000 shares. Mr. Lui and the other co-founder were the initial subscribers and each subscribed for and were allotted and issued with 10,000 shares on 19 December 1991. On 31 July 1995, the aforesaid co-founder disposed of his 5,000 shares at the consideration of HK\$5,000, which was determined with reference to the par value of the shares, to a former employee and an Independent Third Party, Ms. Chung Ka Mun Juliet. Subsequently on 27 September 1995, Ms. Chung Ka Mun Juliet transferred 4,999 shares to Mr. Lui at a consideration of HK\$4,999, which was determined with reference to the par value of the shares, and transferred one share to Win Goal at a consideration of HK\$1.00 (which held the share on trust for and on behalf of Mr. Lui), which was determined with reference to the par value of the share. As a result of the share transfer, PMG (HK) was owned as to 74.99%, 25.00% and 0.01% by Mr. Lui, the other co-founder and Win Goal, respectively.

On 14 November 1995, the aforesaid co-founder transferred his remaining 5,000 shares to Mr. Lui at a consideration of HK\$5,000, which was determined with reference to the par value of the shares following his resignation as a director of PMG (HK) as he decided to pursue other business opportunities. On the same date, Win Goal transferred one share to Ms. Chung Ka Mun Juliet (who held such share on trust for and on behalf of Mr. Lui) at HK\$1.00, which was determined with reference to the par value of the share. As a result of the share transfer, PMG (HK) became wholly owned by Mr. Lui.

On 14 April 1997, 30,000 shares were allotted and issued to Mr. Lui for cash at par. On the same date, the authorised share capital of PMG (HK) was increased to HK\$10,020,000 by the creation of 9,970,000 additional shares of HK\$1.00 each. PMG (HK) remained wholly owned by Mr. Lui since then.

On 19 September 1998, 4,950,000 shares were allotted and issued to Mr. Lui for cash at par. On 2 May 2000, the authorised share capital of PMG (HK) was increased further to HK\$14,000,000 by the creation of 3,980,000 additional shares of HK\$1.00 each. On 5 May 2000, 9,000,000 shares were allotted and issued to Mr. Lui at par through capitalisation of the shareholders' loan in the amount of HK\$9,000,000. As a result of the allotment, PMG (HK) remained wholly owned by Mr. Lui. As at the Latest Practicable Date, the issued share capital of PMG (HK) remained at HK\$14,000,000.

On 15 September 2000, Ms. Chung Ka Mun Juliet transferred one share to Ms. Chan Lai Ching Cindy (who held the one share on trust for and on behalf of Mr. Lui) at a consideration of HK\$1.00, which was determined with reference to the par value of the share. On 8 October 2001, Mr. Lui transferred 13,999,999 shares to Prime Scope at a consideration of HK\$13,999,999 paid out from Prime Scope's internal resources due to the restructuring of the business. On the same date, Ms. Chan Lai Ching Cindy transferred one share to Hoko Development (which held the one share on trust for and on

HISTORY AND DEVELOPMENT

behalf of Prime Scope) at a consideration of HK\$1.00, which was determined with reference to the par value of the share, which was paid out of Hoko Development's internal resources. As a result of the share transfer, PMG (HK) was wholly beneficially owned by Prime Scope as at the Latest Practicable Date.

The above transfers of shares in PMG (HK) were properly and legally completed and were fully settled.

On 7 June 2018, pursuant to the Reorganisation, PMG (HK) became the wholly-owned subsidiary of our Group. PMG (HK) principally engages in the trading of marble and granite and subcontracting of construction and engineering work of marble and granite in Hong Kong. As at the Latest Practicable Date, the issued share capital of PMG (HK) is HK\$14,000,000.

PMG

PMG was incorporated on 30 June 2011 as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares. On 30 June 2011, 100 shares were allotted and issued to PMG Holdings for cash at par. As a result of the allotment, PMG became wholly owned by PMG Holdings.

The share capital of PMG remained unchanged after the aforesaid allotment and issue of shares. On 7 June 2018, pursuant to the Reorganisation, PMG became the wholly-owned subsidiary of our Company. Details of the Reorganisation is set out in the paragraph headed "Reorganisation" in this section. PMG principally engages in the trading of marble and granite and subcontracting of construction and engineering work of marble and granite in Hong Kong. As at the Latest Practicable Date, PMG remained wholly owned by PMG Holdings and the issued share capital of PMG is HK\$100.

Shanghai Hongjun

Shanghai Hongjun engaged in the manufacture of marble and granite products, sales of self-produced products, and the provision of the aftersales services in the PRC at the time when it was set up and subsequently changed its scope of business to culture and arts exchange (excluding being the organiser and the co-organiser), provision of business and investment consultancy services on 29 April 2016. It was established as a limited company in the PRC on 5 July 2000 as a wholly-owned subsidiary of PMG (HK) with registered capital of USD3,300,000. On 29 April 2016, as part of the Reorganisation, PMG (HK) transferred all of its equity interest in Shanghai Hongjun to PMG Holdings. For further details of the equity transfer, please refer to the paragraph headed "Reorganisation — (ii) Equity transfer of Shanghai Hongjun" in this section.

Discontinued Business

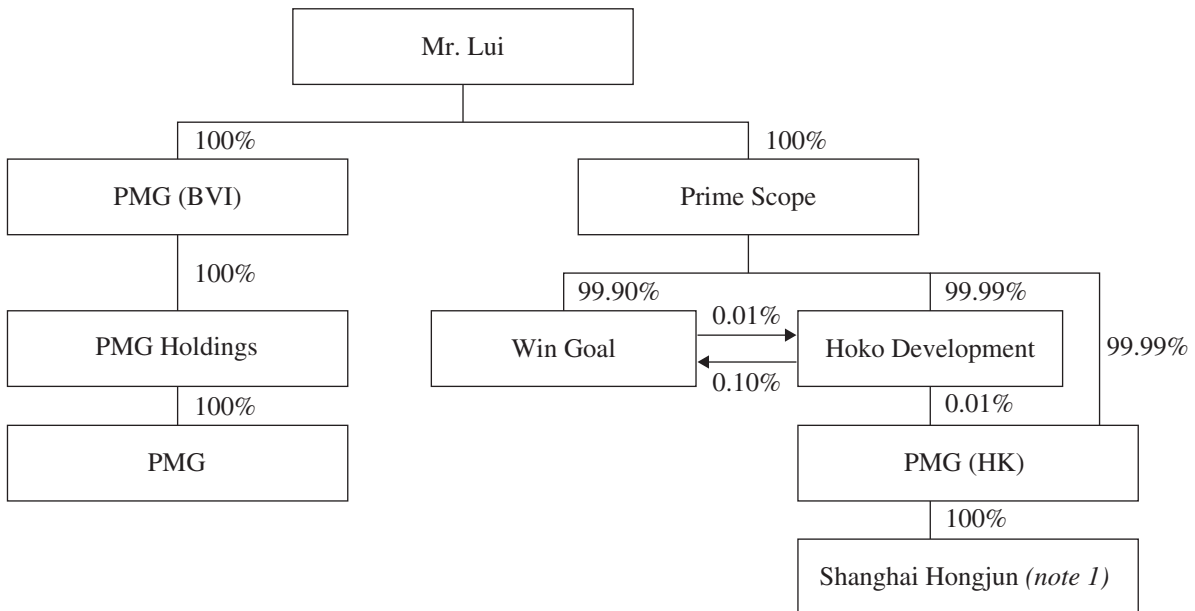
PMG had engaged in the marble and granite trading business in the PRC (the "**Discontinued Business**") during the Track Record Period. The Discontinued Business was mainly related to the sale of stone products by PMG to Shanghai Pacific Marble for its onward sale of relevant stone products to third party customers in the PRC which mainly included property developers in the PRC as well as contractors which engaged in stones supply and installation projects in the PRC. Please refer to the section headed "Relationship with our Controlling Shareholders" in this Prospectus for further details on Shanghai Pacific Marble. PMG had accordingly been one of the major suppliers of stone products for

HISTORY AND DEVELOPMENT

Shanghai Pacific Marble which represented a substantial portion of the revenue of the Discontinued Business. As the board of directors of PMG decided to focus on strengthening the business in Hong Kong, to streamline the operation of the Group and to achieve a clear delineation between the business of the Group, the Excluded Businesses as well as to avoid unnecessary connected transaction after the Listing, it was resolved that the Discontinued Business should be ceased with effect from July 2015. As most of the profit of our Group was generated from the continuing operations during the Track Record Period, the operation of our Group is neither operationally dependent nor financially dependent on the Discontinued Business and our Directors are of the view that the discontinuation of the Discontinued Business will not affect our Group's future operations. Please refer to notes 13 and 28(c)(ii) to the Accountant's Report set out in Appendix I to this Prospectus for further details on the financial contribution by the Discontinued Business and related party transaction regarding the stone sale transactions with Shanghai Pacific Marble.

REORGANISATION

The following chart sets out the corporate structure of our Group immediately prior to the Reorganisation:



Notes:

- (1) PMG (HK) transferred all of its equity interest in Shanghai Hongjun on 29 April 2016 as part of the Reorganisation. For further details please refer to the paragraph below headed "History and development — (ii) Equity transfer of Shanghai Hongjun".
- (2) Percentages have been rounded to two decimal places.

HISTORY AND DEVELOPMENT

In preparation for the Listing, our Group has undergone the Reorganisation and the steps are as follows:

(i) Incorporation of PMG Investments, Pegasus and our Company

On 25 March 2015, PMG Investments was incorporated in the BVI with limited liability and is authorised to issue a maximum of 50,000 shares of a single class, each with a par value of US\$1.00, of which one fully paid share was allotted and issued at par to Mr. Lui on 25 March 2015.

On 15 December 2015, Pegasus was incorporated in the BVI with limited liability and is authorised to issue a maximum of 50,000 shares of a single class, each with a par value of US\$1, of which one fully paid share was allotted and issued at par to our Company on 2 February 2016.

On 2 February 2016, our Company was incorporated as an exempted company in the Cayman Islands under the Companies Law, with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued to the first subscriber, Sharon Pierson, an Independent Third Party, as nil-paid Share, which was transferred to PMG Investments on the same date. Our Company become the investment holding company of our Group as a result of the Reorganisation.

(ii) Equity transfer of Shanghai Hongjun

Shanghai Hongjun originally engaged in the manufacture of marble and granite products, sales of self-produced products, and the provision of the aftersales services and subsequently changed its scope of business to culture and arts exchange (excluding being the organiser and the co-organiser), provision of business and investment consultancy services on 29 April 2016. In order to streamline our business, on 17 January 2016, PMG (HK) entered into an equity interest transfer agreement (as supplemented) with PMG Holdings pursuant to which PMG (HK) transferred the entire equity interests in Shanghai Hongjun to PMG Holdings at the consideration of US\$3,300,000. PMG Holdings is a company held by Pacific Marble & Granite Holdings (BVI) Limited, a company which is in turn held as to 100% by Mr. Lui, our Controlling Shareholder. The consideration for the transfer was determined with reference to the amount of the registered capital of Shanghai Hongjun in April 2016. The transfer of the equity interest was completed on 29 April 2016 and the consideration was settled in November 2017 and thereafter Shanghai Hongjun no longer forms part of our Group.

(iii) Acquisition of shareholding interests in PMG (HK) and PMG

Our Group carried out the following restructuring exercises in order to make each of PMG (HK) and PMG under one common shareholder, Pegasus:

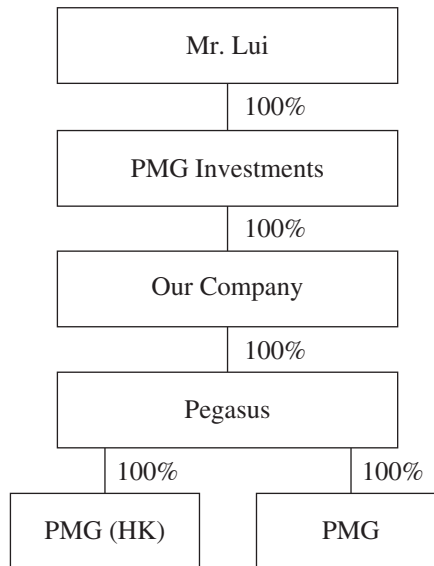
- (i) on 7 June 2018, Hoko Development and Prime Scope transferred their entire shareholding interest in PMG (HK) to Pegasus for the consideration of (i) the crediting as fully paid at par the one nil-paid subscriber Share in issue and registered in the name of PMG Investments, and (ii) the allotment and issuance of one Share by our Company to PMG Investments as directed by Hoko Development and Prime Scope credited as fully paid.

HISTORY AND DEVELOPMENT

- (ii) on 7 June 2018, PMG Holdings transferred its entire shareholding interest in PMG to Pegasus as directed by our Company in consideration of the allotment and issuance of one Share by our Company to PMG Investments, as directed by PMG Holdings, credited as fully paid.

Following the above steps of Reorganisation, each of PMG (HK) and PMG have become a direct wholly-owned subsidiary of Pegasus.

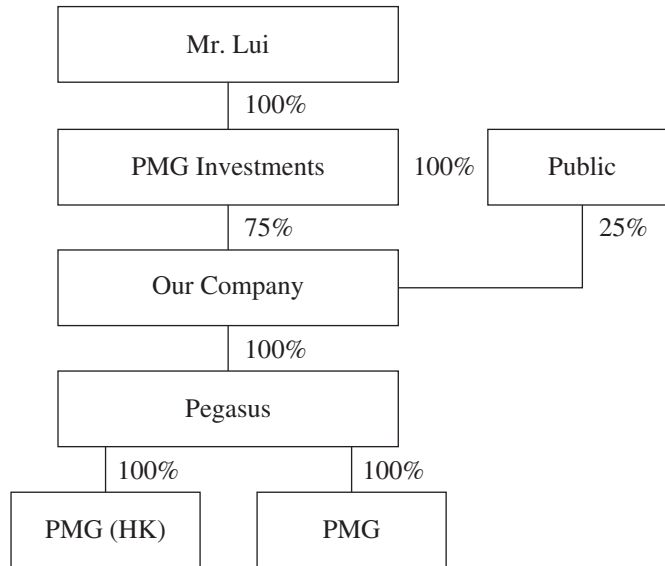
The following chart sets out the corporate structure of our Group immediately following the acquisition of shareholding interests in each of PMG (HK) and PMG but before the Share Offer (without taking into account of any Shares up to the exercise of the Over-allotment Option):



HISTORY AND DEVELOPMENT

GROUP STRUCTURE

The following chart sets out our shareholding structure of immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares to be allotted and issued upon the exercise of the Over-allotment Option):



OVERVIEW

We are a leading and well-established subcontractor in Hong Kong specialising primarily in supply and installation of marble and granite for construction projects, with an operation history of over 22 years. In 2016, we were the second largest marble and granite works contractor in Hong Kong in terms of revenue with a market share of approximately 11.0%, according to the CIC Report.

Industry highlights

According to the CIC Report:

- the gross value of construction works in Hong Kong from 2012 to 2016 recorded a CAGR of approximately 10.0%, whereas for the same period the Hong Kong marble and granite works market also enjoyed a CAGR of approximately 11.2%;
- the gross value of construction works in Hong Kong from 2016 to 2021 is expected to have a CAGR of approximately 8.4%, whereas for the same period the Hong Kong marble and granite works market is estimated to record a higher CAGR of approximately 8.8%;
- there has been an increasing trend of using marble and granite in the construction projects in Hong Kong, as there are more developments in Hong Kong which target the high-end markets, and marble and granite are increasingly used for both external and interior areas of buildings to offer luxurious touch.

Please refer to the sections headed “Industry overview — Development of construction industry in Hong Kong” and “Industry overview — Overview of Hong Kong’s marble and granite works market” in this Prospectus for further details.

Our key business value

As a specialist contractor in marble and granite supply and installation in Hong Kong, we undertake marble and granite works for a wide range of building and property types in Hong Kong, including commercial buildings, residential buildings, hotels, and public infrastructures. We generally offer our services on project basis to our customers, and our works form part of the main construction and development contracts of our customers.

Our Directors believe that the key business values we offer to our customers are:

- our proven operation history during which we have undertaken and completed 16 marble and granite supply and installation projects in Hong Kong during the Track Record Period and up to the Latest Practicable Date with project sizes ranging from approximately HK\$0.3 million to HK\$228.7 million, including a number of high-end and high profile commercial and residential projects;
- we have established an extensive network with other industry players including property developers and main contractors, as well as architects, stone suppliers, fabrication contractors and installation subcontractors;

BUSINESS

- we place strong emphasis on project management and quality control. This is particularly important as our marble and granite works usually form part of an overall development project, and our delivery of timely and reliable services is crucial to the overall development quality and timetable; and
- we have developed and accumulated substantial expertise and knowhow in the fabrication and installation process using marble and granite, and our ability to offer valuable recommendations and advice to our customers in selection of marble and granite.

Our services

Most of our customers are main contractors. As a subcontractor, depending on the specific requirements of individual contracts, we provide one-stop comprehensive services principally covering the following scope:

- recommending and sourcing of marble and granite prescribed by our customers or otherwise conformed to the requirements of our customers;
- arranging fabrications of the marble and granite into customised sizes;
- arranging delivery and installation of marble and granite on external cladding of buildings, landscape and/or the interiors of the buildings such as entrance lobbies, kitchens and bathrooms; and
- arranging post-installation services such as polishing and cleaning.

Please refer to the paragraph headed “Our business model — Supply and installation services” in this section for further details.

We also occasionally sell stones including marble and granite on project and wholesale basis. The revenue generated from these stone sales during the Track Record Period was insignificant. Please refer to the paragraph headed “Our business model — Stone sales” in this section for further details.

Our projects

For each of FY2015, FY2016 and FY2017, our revenue from supply and installation services was approximately HK\$208.7 million, HK\$213.0 million and HK\$219.9 million, respectively, representing approximately 97.8%, 95.9% and 97.8% of our total revenue from our continuing operations for the respective periods, while our revenue from sales of stone was approximately HK\$4.6 million, HK\$9.1 million and HK\$4.9 million, respectively, representing approximately 2.2%, 4.1% and 2.2% of our total revenue from our continuing operations for the respective periods.

The size of property development projects of our customers vary which may involve single storey building to large-scale property development. Our Directors believe that we are able to cater our customers’ need on different project scale. During the Track Record Period and up to the Latest Practicable Date, we completed a total of 17 supply and installation projects with individual contract sum ranging from approximately HK\$0.3 million to HK\$228.7 million, and 5 stone sales projects with

BUSINESS

individual contract sum ranging from approximately HK\$1.1 million to HK\$8.2 million. As at the Latest Practicable Date, we had a total of 11 supply and installation projects in progress. For further details on our projects, please refer to the paragraph headed “Our projects” in this section.

Our quality assurance and quality control system and our subcontractors

As at the Latest Practicable Date, we maintain a taskforce of 36 full-time employees, including our project management, project coordination and quality assurance and control staff, in quality control on stone procurement as well as quality control in installation process. We also have established quality assurance and quality control system covering the entire process to ensure quality and compliance with the specifications required by our customers. Please refer to the paragraph headed “Quality control” in this section for further details.

We outsource all our installation services to independent third party subcontractors. As at the Latest Practicable Date, we had 28 installation subcontractors on our approved lists. Such network enables us to select subcontractors which possess the relevant expertise for the project, to have more flexibility in pricing, and to reduce the risk of shortage or delay in delivery causing material disruption in our services.

COMPETITIVE STRENGTHS

We believe that our competitive strengths as set out below distinguish us from our competitors:

We have established reputation and proven track record

We started our business in providing supply and installation services for marble and granite in 1995 and since then we have accumulated over 22 years’ experience in the industry. In 2016, in terms of revenue, we were the second largest contractor in Hong Kong specialising in supply and installation services for marble and granite for construction projects with a market share of approximately 11.0%, according to the CIC Report. During the Track Record Period and up to the Latest Practicable Date, we have undertaken and completed 17 supply and installation projects in Hong Kong, including a number of large-scale, high-end and high profile residential projects, including but not limited to luxurious residential projects on Mount Nicholson Road, in Tai Po and Kau To Shan. We believe that our established reputation and proven track record would enable us to successfully compete with other companies where pre-qualification on job reference, technicality and financial resources is usually required.

We have substantial expertise and knowhow in marble and granite

We specialise in using marble and granite as principal raw materials in our services. We consider that, due to the characteristics of different kinds of natural marble and granite, fabrication and installation of marble and granite demand special techniques and familiarity in handling marble and granite. We have established relationships and connections with a network of stone suppliers, installation subcontractors and other suppliers. We continuously monitor, evaluate and update our databases of our suppliers and installation subcontractors in respect of their quality standards, pricing, capacities, capabilities, performance and service levels so that we have up-to-date market knowledge. We believe that our in-depth knowledge in marble and granite as well as market intelligence in this sector gained through our continuous engagements with industry players enable us to provide our comprehensive

BUSINESS

services including assisting our customers in selections of appropriate marble and granite, evaluating qualities of marble and granite from different suppliers, supervising the fabrication to optimise and minimise wastage, and supervising the installation work to ensure conformity to designs. We believe our expertise and knowhow in marble and granite enables us to deliver our services more efficiently. By sharing market intelligence with our customers, it enables us to build a solid relationship with our customers and better understand the needs of our customers which provide us a chance to capture potential business opportunities with them.

We have an experienced project management team

Our management team has extensive industry knowledge and project management experience in the Hong Kong marble and granite supply and installation industry. Mr. Lui, our founder and executive Director, has over 35 years of experience in provision of installation services of marble and granite. Mr. Kan, our project director and a member of our senior management team, also has over 20 years of experience in the industry. Please refer the section headed “Directors and senior management” in this Prospectus for details of the qualification and experience of our Directors and senior management. Our Directors believe that our in-depth industry knowledge and extensive project management experience have ensured smooth progression and completion of our projects. During the Track Record Period and up to the Latest Practicable Date, we have completed 17 supply and installation contracts and none of the completed contracts projects were subject to penalty charges or claims against us for late completion and delivery.

BUSINESS STRATEGIES

We aim to strengthen our market position in the industry in Hong Kong by pursuing the following strategies:

Expand our capacity to undertake projects of more sizeable scale

Given our proven track record, we believe that we are well positioned to expand our market share by undertaking more projects of larger scale. In deciding whether to undertake a project, our Group will consider, among other things, the amount of available working capital, capacity of project management team and resources requirements for projects in progress. We require sufficient working capital to commence a new project as we typically incur significant costs in the early stage of a project in relation to purchase of raw materials and relevant fabrication and transportation cost, while we can only start making progress payment application since the cut-to-size panels are delivered to the construction site. For each of FY2015, FY2016 and FY2017, aggregated raw materials, fabrication and transportation cost amounted to approximately HK\$44.7 million, HK\$72.6 million and HK\$64.1 million, respectively, which accounted for 32.7%, 47.5% and 40.4% of our total cost of sales for supply and installation services of the relevant period respectively. As such, our capacity is largely limited by our capital resources to fund the start-up cost of our project. In order to enlarge our operation capacity to take up additional projects, we intend to apply approximately HK\$69.3 million of our proceeds from the Share Offer to finance the start-up cost for future projects. Our Directors believe that the net proceeds from the Share Offer will strengthen our available financial resources, thereby allowing us to undertake more sizeable projects in the future.

BUSINESS

Strengthen our project management team and continue to maintain high standards of project planning, management and implementation

We consider that our Group's capacity to take up and execute projects is largely determined by the capacity of our project management team. Our Group intends to recruit additional experienced and skilled candidates so as to enhance our Group's capacity to undertake more and sizeable projects. To cope with our business development and future expansion, we plan to increase headcount of our project management team by recruiting one project manager, one site manager, two site coordinators and one quantity surveyor during year 2018. We also plan to acquire three motor vehicles to enhance operational efficiency as well as to cope with the need from our expanding project management team. We plan to apply approximately HK\$2.0 million and HK\$1.1 million of our proceeds from the Share Offer for the expansion of our project management team and the acquisition of motor vehicles, respectively.

Enhance our services and increase our sales and marketing effort to forge stronger customer relationships

We believe that the ability to offer high quality and value-added services is important in attracting new businesses and expanding our market presence. With a view to attracting new customers, and forging stronger and more stable business relationships with our existing customers, we plan to expand our resources on (i) enhancing the services provided to our customers; and (ii) strengthening our effort in sales and marketing.

Enhancing our services

- In order to demonstrate our in-depth knowledge in marbles and granites, and to support our customers in the design stage, we plan to lease a new office premises with additional office space for accommodating additional employees and for establishing a showroom within our office to showcase a wide selection of stone types with a variety of stone finishing by displaying physical samples and catalogues. The showroom will feature different designs, patterns, inlays, three dimensional profiles and other special products used in our previous projects. Mock-ups will also be set up so that our customers can visualise the stone work designs at an earlier stage of the projects. Our Directors believe that we can make use of the showroom to provide our advice on stone designs, which helps us to build up a strong rapport with our customers.
- During the Track Record Period, we outsourced the preparation of detailed specification drawings. Whilst we will continue to engage third party service providers for such drawing services, we plan to complement this arrangement by establishing an in-house drawing capability which involves the implementation of an auto-CAD system and recruitment of in-house draftmen to improve the turnaround time for us to provide drawing of stone designs to our customers. Our Directors believe that our in-house drawing capability enables us to make alterations to designs and handling customers' ad hoc or urgent requests within a shorter period of time to improve our operational efficiency as it avoids the need of back and forth communications with the third party service providers and we can better control the quality of the drawing works.

BUSINESS

Strengthening our effort in sales and marketing

- In order to further promote our Group and broaden our customer base, we plan to expand our marketing and sales team by recruiting two additional sales representatives. In addition to maintaining our relationships with existing customers, the expanded marketing and sales team will be responsible for collecting market intelligence to identify suitable potential construction and renovation projects, soliciting tender invitations from these projects and conducting customer satisfaction surveys.

We plan to apply approximately HK\$3.6 million, HK\$0.9 million and HK\$0.7 million of our proceeds from the Share Offer for (i) relocating our office and establishing a showroom; (ii) implementing an auto-CAD system and recruiting in-house draftmen; and (iii) expanding our sales and marketing team, respectively.

Enhance our information technology capabilities to improve the overall operational efficiency

As the scale of our business grows continuously, we plan to continue to improve our overall operational efficiency by implementing a computerised ERP system which supports various functions including project management, costing and budgeting, monitoring procurement process and financial accounting. Our Directors believe that the ERP system can enhance our operating efficiency and effectiveness, facilitate troubleshooting, improve information flow among various departments, enable the management to monitor the work progress of the project management team more efficiently and accurately as well as reducing our administrative work. In addition, we plan to recruit two additional information technology staff to support the new ERP system. We plan to apply approximately HK\$2.6 million of our proceeds from the Share Offer to fund the above.

Please refer to section headed “Future plans and proposed use of proceeds — Use of proceeds” in this Prospectus for further details.

OUR BUSINESS MODEL

We principally engaged in (i) supply of marble and granite and provision of relevant installation services for construction or renovation projects in Hong Kong; and (ii) sale of stones. The following table sets forth our revenue from our continuing operations by type of transactions for the periods indicated.

	FY2015		FY2016		FY2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Supply and installation services	208,668	97.8	213,021	95.9	219,861	97.8
Stone sales	<u>4,635</u>	<u>2.2</u>	<u>9,120</u>	<u>4.1</u>	<u>4,932</u>	<u>2.2</u>
	<u><u>213,303</u></u>	<u><u>100.0</u></u>	<u><u>222,141</u></u>	<u><u>100.0</u></u>	<u><u>224,793</u></u>	<u><u>100.0</u></u>

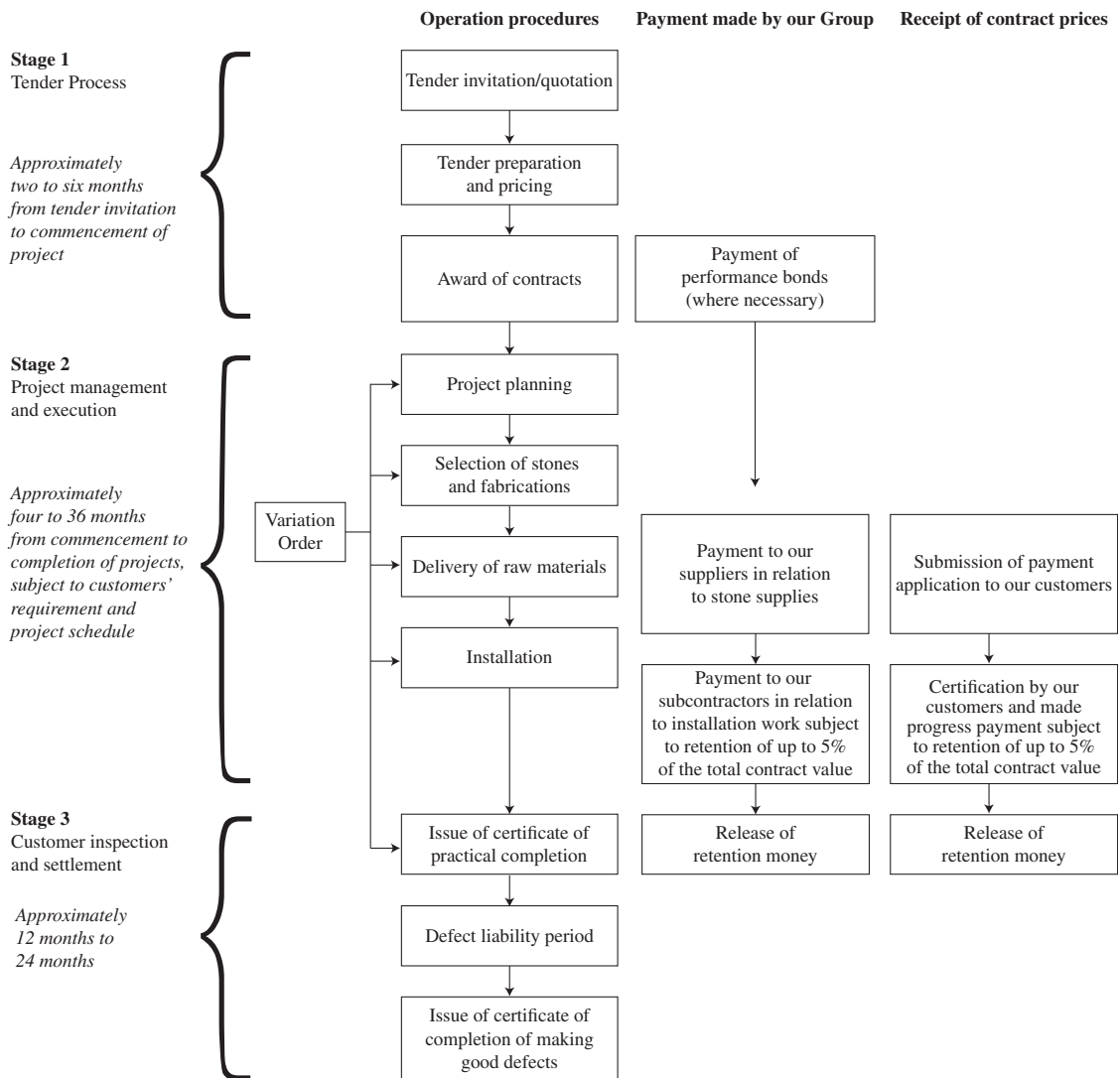
BUSINESS

Supply and installation services

We supply marble and granite and provide relevant installation services for construction projects in Hong Kong. Marble and granite supplied by our Group are used in a variety of decorative settings for areas such as entrance lobbies, kitchens and bathrooms as well as external cladding of buildings and landscape. Our Directors believe that it has become popular in both residential and commercial properties to have marble and granite mouldings or columns with different polished profiles or edges for use in both the interior and exterior of the buildings to improve their looks and that marble and granite counter-tops, which are designed for bathrooms and kitchens, marble and granite claddings for window sills and different marble and granite pattern dados or floor patterns are widely used in residential and commercial properties.

Operating Procedures

The following chart is a general overview of the major steps involved in our supply of marble and granite and provision of relevant installation services as at the Latest Practicable Date:



BUSINESS

The duration of our works can be affected by a number of factors including technical complexity, availability of specified materials, expectation of customers and variation of works etc., which can vary widely. The duration of our projects from commencement to completion of our works during the Track Record Period varied from four months to over four years mainly depends on the schedule of the project and work specifications required by the main contractor or the property developers.

Stage 1 — Tendering

Tender invitation. We will receive tender invitation for supply of marble and granite and the relevant installation services or we will identify potential projects through market intelligence. We may be engaged as either domestic subcontractor or nominated subcontractor. We act as a domestic subcontractor for projects when directly engaged by the main contractors and as nominated subcontractor for projects when engaged by the main contractor through the nomination of the ultimate owners of the projects, such as the developers or landlord of the relevant projects. To be a nominated subcontractor, our Group is usually required to participate in pre-qualification evaluation procedures where a list of current and past projects undertaken by our Group, an organisational chart and the resumes of the proposed project management team have to be submitted for our customers' consideration. Once our Group's qualification and experience are accepted by the customers, our Group will be informed and provided with the tender documents and an invitation to submit a tender. During the Track Record Period, we acted as domestic subcontractors for 17 contracts and nominated subcontractors for eight contracts.

Preparation of tender and pricing. We are generally required to submit the tender within one weeks to eight weeks from receipt of the tender documents. Most of our contracts are awarded and carried out on a fixed-price basis with a pre-determined timetable for project completion. In determining whether to proceed with a tender and pricing a tender, we make reference to (i) the nature, scope and complexity of the projects; (ii) the estimated subcontracting cost; (iii) cost and origin of materials; (iv) completion time required by our customers; (v) availability of our Group's resources and expertise; (vi) market conditions; (vii) our working capital and financial condition; (viii) relationship with the customers; and (ix) capacity of our project management team. We will also consider any subsequent tender changes, modifications or addenda received during the tender preparation process.

Award of contracts. Upon receipt of our tender, our customer will, by way of interview or enquiries, clarify with us the particulars of our submitted tender. Once our customer decides to engage us, we will be informed of its acceptance of our tenders by a letter of award or letter of intent issued to us by our customers. Upon our acceptance and confirmation of our customer's letter of intent or letter of award, we are committed to allocate our financial and human resources for the execution of the awarded contract. We may then enter into formal agreement with the customers. For the principal terms of our engagement in a typical contract, please refer to the paragraph headed "Our customers — Key contract terms with our major customers" in this section for further details.

When we are engaged as nominated subcontractor, we are usually required to provide performance bonds issued by an insurance company or a bank in favour of our customer; when we are engaged as domestic subcontractor, we may also occasionally required to provide performance bonds depending on the contract size and requirement of the main contractor. During the Track Record Period and up to the Latest Practicable Date, no performance bond had been called by our customers by reason of late completion of any of our projects. Generally, the amount of performance bond required for a project

undertaken by us would not exceed 10% of the total contract sum and the performance bond normally expires upon issuance of the certificate of practical completion or upon the issue of certificate of completion of making good defects after the expiry of defect liability period.

Stage 2 — Project management and execution

Project planning. Our Group will form a project management team to oversee and manage the marble and granite supply and installation project. A work programme will be prepared according to the contract requirements and the site activities in the work programme will be broken down into sufficient details such that individual task or work can be timely monitored. Set out below are some general duties performed by our key personnel in a project management team:

Project director

Our project director is responsible for preparation of tenders and overall supervision and management of our projects as well as participate in quarry visit and stone selection together with our quality assurance and control manager. Our project director will directly report to our chief executive officer.

Project manager

Our project manager is responsible for all aspects of the projects assigned to him, including but not limited to, procurement arrangement, coordinating with our customers and subcontractors, monitoring work efficiency and performance to ensure the project progress adhere to the work programme. Our project manager will directly report to the project director on the status of their projects.

Site manager

Our site manager stations at the construction site to monitor the work progress and supervise the overall workforce on site. He attends periodical site meetings with representatives of main contractors and other subcontractors concerning project progress and quality issues. The site manager reports directly to our project manager. Depending on the size of project and resources requirement, the role of site manager may be taken up by project manager.

Project coordinator

Our project coordinator is responsible for assisting the site manager to carry out the day-to-day monitoring and co-ordination work at different section of a construction site according to the instructions of the site manager. Our project coordinator will also visit the fabrication factory to carry out pre-laying check before packing and delivery of cut-to-size panels to the construction site. He is also responsible for ensuring strict compliance with statutory occupational health and safety laws, rules and regulations.

Quality assurance and control manager

Our quality assurance and control manager is responsible for procurement of stones and inspection of the stones and panels throughout different stages of our project to ensure the stones meet the requirements of our customers.

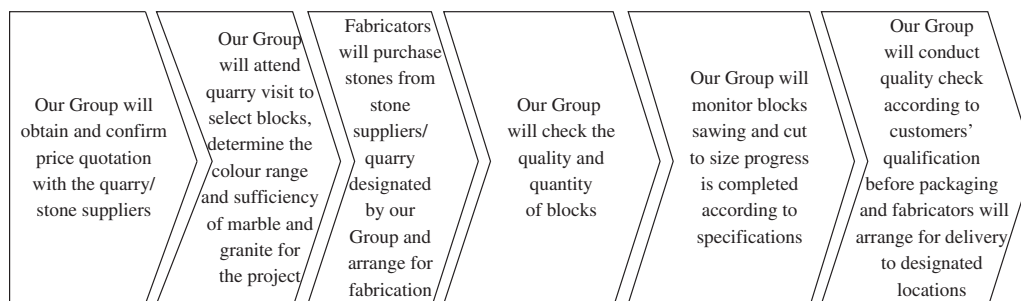
BUSINESS

Quantity surveyor

Our quantity surveyor is responsible for budgeting and calculation of raw material quantities for preparation of tenders as well as closely monitoring and ensuring that the quantity of stones used in a project adhere to the budgeted amount and will report to the management if any material deviation noted. He is also responsible for inspecting the work progress on site and preparing payment application. Our quantity surveyor is also required to update our project manager with the latest certified progress from our customers.

Selection of stones and fabrications. We select our suppliers and fabricators from our approved list. As at the Latest Practicable Date, we had approximately 12 suppliers and 19 fabricators on our approved list, which is reviewed and updated periodically. The admission of suppliers and fabricators onto our approved list is subject to assessment of various factors including experiences, product quality, financial conditions and after-sales services. During the procurement process, we may make recommendations to the customers on the type of stones which we believe would achieve the best result according to their requirements at competitive price. We also give suggestions to assist customers in fine-tuning or adjusting their design. Leveraging our knowledge on marble and granite, we pride ourselves on our ability to provide a comprehensive range of marble and granite to satisfy the different requirements of our customers. During the Track Record Period, we outsource the preparation of detailed specification drawings.

During the Track Record Period and prior to 2016, we purchased stones from our overseas or PRC suppliers for blocks or slabs. We will arrange for fabrications into cut-to-size panels according to our customers' specification. Since 2016, we started to purchase cut-to-size panels instead of blocks or slabs from our stone suppliers. When we receive tender invitation, we will obtain price quotation from the quarry or stone suppliers and make decision on the stones to be purchased. Our fabricators (which we will purchase the cut-to-size panels from) will purchase stones from the quarry or stone suppliers designated by us and arrange for fabrications to cut-to-size panels. From 2016 and until the Latest Practicable Date, our general procurement process of supply and installation services is as follows:



Under both procurement processes before and after 2016, we will take up an active role in advising our customers on the types of stones to be used, attending the quarry visits, selection of stones as well as carrying out the quality control procedures in the entire process to ensure that the quality of the stones we supply meets the requirements of our customers. Please refer to the paragraph headed “Quality control” in this section for further details.

The new arrangement enables us to better control our cost through transferring the risk of wastage of materials in addition to the budgeted range during the fabrication process to the fabricators. Our Directors believe that the fabricators will be more careful in handling the fabrication process under the

BUSINESS

new arrangement given that they have to bear the additional wastage cost and we could also minimise our time and cost in arranging transportation and delivery of raw materials as such tasks will be handled by our fabricators directly under the new arrangement.

Installation. We outsource our installation services to third party installation subcontractors. We generally select subcontractors from our pre-qualified list of subcontractors. For any given project, we select subcontractors based on a number of parameters including their ability to meet the requirements in the main contract with our customer, resources, capacity, previous cooperation experience, price competitiveness, efficiency and their workmanship. Our project management team will examine the work performed by our subcontractors and monitor the work progress. Our Directors believe that having the flexibility to engage subcontractors to carry out our selected works of the project would provide us with the flexibility to better manage our manpower and better utilise our own internal resources in different projects. We require our subcontractors to maintain a high standard of quality, occupational health and safety and environmental protection. We monitor the performance of our subcontractors through on-site inspections and supervision while the subcontracted activities are being carried out by our subcontractors. We generally require our subcontractors to comply with the applicable laws and regulations and safety requirements imposed by the relevant government authorities.

Please refer to the paragraph headed “Our suppliers and service providers” in this section for details of the contracts with our installation subcontractors.

Variation orders. We may be given variation orders during the construction process where our customers amend the specification and scope of work agreed under the original contract. A variation order may alter the original scope of work including but not limited to additions, omissions, substitutions, alterations and change in specification, sequence or schedule of construction. The variation order shall be determined and valued in accordance with the terms and conditions set out in the contract documents and the total contract sum of the relevant project is adjusted accordingly. The rights and obligations under the variation order will be same as that under the original contract. 10.1% of the revenue from our continuing operations recognised during the Track Record Period was derived from variation orders.

Stage 3 — Customer inspection and settlement

Progress payment and retention money. We usually do not receive any upfront payments or deposits from our customers prior to the commencement of work. However, there are costs, such as the costs of raw materials, which are typically incurred at an early stage of a contract before we receive all payments from our customers and which are therefore required to be paid from our available financial resources.

Our installation subcontractors usually bill us on a monthly basis with reference to the value of actual work done. Our subcontractors normally grant to us a credit period of approximately 30 to 90 days from the date of invoice. Upon receipt of their invoices, our management will assess the invoiced items against the original quotations for re-measurements before settlement taking into account any additional works performed by the subcontractors. We are entitled to withhold 10% of each progress payment, subject to a maximum of 5% of the total contract sum. In the event that retention money is held by us, according to the agreements with our installation subcontractors, 50% of the retention money will be released within one month after the issue of certificate of practical completion of the project from our customers to us and the remaining 50% of which will be released within one month after the

BUSINESS

issue of certificate of completion from our customers to us of making good defects after the expiry of the defect liability period. However, in practice, we may repay the retention money to the subcontractors earlier than the issue of the certificate of practical completion/certificate of completion of making good defects to maintain a good relationship with our subcontractors.

For us, we normally receive progress payment from our customers based on progress of our work performed with reference to the value of the raw materials delivered and/or the percentage of the installation works done on the construction site. Generally, we submit a payment application to our customers with reference to the works done in a period on monthly basis, which will subsequently certified by the authorised persons, such as the architects or consulting quantity surveyors employed by our customers. A certificate will be issued by the authorised person providing the amount payable with reference to our works performed on the construction site. Our customers will then make progress payments with reference to such certificates.

Our customers are generally entitled to withhold 10% of the interim progress payment to us, subject to a maximum retention of 5% of the total contract value as retention money to guarantee the quality of our work. Generally, 50% of the retention money is released upon the issue of certificate of practical completion of the project to us and the remaining 50% of the retention money is released to us upon the issue of certificate of completion of making good defects after the expiry of the defect liability period. As at 31 December 2017, the aggregate retention receivables amount to approximately HK\$31.0 million.

In view of the nature of payment schedule, we may be subject to credit risk. Please refer to the paragraph headed “Our customers — Credit control” in this section for further details.

During the Track Record Period, we did not have any material dispute relating to settlement of subcontracting charges with our subcontractors and settlement with our customers. Our Directors are of the view that we have maintained good working relationships with our subcontractors and our customers.

Defect liability period. Our customers would normally require a defect liability period, during which we are responsible to rectify defects. Defect liability period normally lasts for 12 to 24 months after project completion and handover. Under the usual terms of our contracts, we are liable to rectify all defective works during the defect liability period, if any. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material claim by our customers in respect of our works.

Stone sales

During the Track Record Period, we also participated in projects that only relates to the supply of different specifications of marble and granite, which we may also be required to participate in tendering and formulating a work programme for such project. For FY2015, FY2016 and FY2017, our Group’s revenue generated from supply of marble and granite on a project basis was approximately HK\$2.8 million, HK\$8.7 million and HK\$1.9 million, representing approximately 60.8%, 95.3% and 39.4% of our revenue generated from sales of marble and granite. Further, we also occasionally sell various marble and granite products on wholesale basis. For FY2015, FY2016 and FY2017, our Group’s revenue generated from supply of marble and granite on a wholesale basis was approximately HK\$1.8 million, HK\$0.4 million and HK\$3.0 million, representing approximately 39.2%, 4.7% and 60.6% of our revenue generated from sales of marble and granite. For project based stone sales, we would give suggestions on the type of stone according to the customer’s need if the type of stone has not been specified by the

BUSINESS

customer. For wholesale based stone sales, our customers generally specify the type and quantity of stone they require and make one-off purchase. In cases where we are invited to submit a tender or give a fee quotation, in determining whether to proceed and the pricing, we generally consider (i) the scope and timeline of the project; (ii) the cost and origin of materials; (iii) anticipated difficulty in sourcing the materials; (iv) the availability of our Group's resources; and/or (v) our working capital and financial condition.

Once our customer decides to engage us, we will be issued a letter of award, or we will enter into an agreement with the customer, which sets out the type, quantity, measurements and specifications of the stones required, the delivery schedule and payment terms. We will source the stones from our suppliers and engage subcontractors to carry out the fabrication of the stones according to the customer's requirements. Our quality assurance and quality control manager is responsible for procurement of stones and inspection of the stones and panels throughout different stages of our project to ensure the stones meet the requirements of our customers. If required by our customers, we will also arrange delivery of the stones to the site according to the delivery schedule as set out in the letter of award or the relevant agreement. For FY2015, FY2016 and FY2017, our Group's revenue generated from sales of marble and granite was approximately HK\$4.6 million, HK\$9.1 million and HK\$4.9 million, representing approximately 2.2%, 4.1% and 2.2% of our revenue from our continuing operations, respectively.

OUR PROJECTS

Overview

Projects awarded to our Group during the Track Record Period

The following table sets forth a breakdown of the projects awarded to our Group during the Track Record Period by types of transaction:

	FY2015	FY2016	FY2017
	<i>Number of projects awarded</i>		
Supply and installation services	3	8	8
Stone sales	1	—	—

Supply and installation services

The following table set forth a breakdown of the supply and installation projects awarded to our Group during the Track Record Period by ranges of awarded contract sum:

	FY2015	FY2016	FY2017
	<i>Number of projects awarded</i>		
<i>Awarded contract sum</i>			
Less than HK\$5 million	—	—	1
HK\$5 million to HK\$20 million	—	4	5
HK\$20 million to HK\$50 million	3	1	2
More than HK\$50 million	—	3	—
Total	3	8	8

BUSINESS

Our project backlog

The following table sets out the movement of the number of our supply and installation projects during the Track Record Period:

	FY2015	FY2016	FY2017
Opening number of projects ⁽¹⁾	6	6	12
Number of new projects ⁽²⁾	3	8	8
Number of completed projects ⁽³⁾	3	2	9
Ending number of projects ⁽⁴⁾	6	12	11

Notes:

- Opening number of projects represents number of projects which were not completed as of the beginning of the relevant year indicated.
- Number of new projects represents number of new projects commenced during the relevant year indicated, including those projects that were tendered in the preceding year but awarded and commenced in the relevant year. The following table sets forth a breakdown of our number of new projects in the years indicated:

	FY2015	FY2016	FY2017
Number of supply and installation projects tendered in preceding year and awarded during the year*	1	5	3
Number of supply and installation projects tendered and awarded during the year*	2	3	4
Number of supply and installation project obtained by way of quotation during the year	—	—	1
	3	8	8

* Please see paragraph headed “Our projects — Tender success rate” in this section for further details of our projects tendered in the Track Record Period.

- Number of completed projects represents number of projects completed by the Group during the relevant year indicated.
- Ending number of projects equals to the opening number of projects plus number of new projects, and minus number of completed projects in the relevant year indicated.

BUSINESS

The following table sets out the movement in terms of monetary value of our supply and installation projects during the relevant period:

	FY2015	FY2016	FY2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening value of backlog	177,122	79,683	159,742
Total value of new contracts ⁽¹⁾	111,229	293,080	154,011
Total revenue recognised ⁽²⁾	(208,668)	(213,021)	(219,861)
Closing value of backlog ⁽³⁾	79,683	159,742	93,892

Notes:

- (1) Total value of new contracts represents the aggregate contract value awarded to us plus the value of works we performed for variation orders during the relevant year indicated.
- (2) Recognised revenue represents the revenue from our supply and installation projects recognised in the relevant year.
- (3) Closing value of backlog represents the remaining contract sum that has not been recognised with respect to projects that have not been fully completed as at the end of the relevant year indicated.

BUSINESS

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

The following table summarises 17 supply and installation projects completed by our Group during the Track Record Period and up to the Latest Practicable Date in chronological order by project commencement date:

Project No.	Location	Project nature	Customer nature	Commencement date	Completion date	Awarded contract sum <i>HK\$ million</i> <i>(Note 1)</i>	Revenue recognised during the Track Record Period <i>(Note 2)</i>		
							FY2015 <i>HK\$ million</i>	FY2016 <i>HK\$ million</i>	FY2017 <i>HK\$ million</i>
1	Tong Tak Street, Tseung Kwan O	Domestic sub-contractor/ Hotel project	Main contractor	19 November 2011	18 March 2016	6.8	—	0.5	—
2	Wui Cheung Road, Jordan	Nominated sub-contractor/ Residential project	Main contractor through nomination of the ultimate owners of the project	5 November 2012	13 July 2015	47.6	3.8	0.6	0.3
3	Chek Lap Kok	Domestic sub-contractor/ Commercial project	Main contractor	14 March 2013	5 July 2017	22.4	19.1	3.1	0.4
4	Mount Nicholson Road, the Peak	Domestic sub-contractor/ Commercial project	Main contractor	20 June 2013	17 June 2016	228.7	162.0	6.4	—
5	Fo Chun Road, Tai Po	Nominated sub-contractor/ Residential project	Main contractor through nomination of the ultimate owners of the project	26 July 2013	14 September 2015	124.4	19.2	1.0	1.9
6	Island Road, Deep Water Bay	Domestic sub-contractor/ Residential project	Individual	25 November 2014	13 October 2015	1.2	1.6	—	—
7	Tong Yin Street, Tseung Kwan O	Domestic sub-contractor/ Residential	Main contractor	5 August 2015	27 November 2017	22.0	—	19.0	3.4

BUSINESS

Project No.	Location	Project nature	Customer nature	Commencement date	Completion date	Awarded contract sum HK\$ million (Note 1)	Revenue recognised during the Track Record Period (Note 2)		
							FY2015 HK\$ million	FY2016 HK\$ million	FY2017 HK\$ million
8	Sheung Foo Street, Homantin	Nominated sub-contractor/ Residential	Main contractor through nomination of the ultimate owners of the project	12 October 2015	20 October 2017	22.8	—	15.3	8.1
9	Chi Shin Street, Tseung Kwan O	Domestic sub-contractor/ Residential	Main contractor	22 February 2016	31 December 2017	5.6	—	4.3	0.0
10	Barker Road, the Peak	Nominated sub-contractor/ Residential	Main contractor through nomination of the ultimate owners of the project	6 April 2016	30 April 2018	39.6	—	26.1	53.6
11	Lai Ping Road, Kau To Shan, Shatin	Domestic sub-contractor/ Residential	Main contractor	15 June 2016	31 January 2018	58.4	—	43.1	—
12	Moorsom Road, the Peak	Domestic sub-contractor/ Residential project	Private company	15 September 2016	27 August 2017	13.1	—	10.6	2.6
13	Lai Ping Road, Kau To Shan, Shatin	Domestic sub-contractor/ Residential	Main contractor	13 January 2017	30 August 2017	17.2	—	—	17.2
14	Moorsom Road, the Peak	Domestic sub-contractor/ Residential project	Private company	10 February 2017	27 August 2017	7.6	—	—	7.2
15	Hoi Bun Road, Kwun Tong	Domestic sub-contractor/ Commercial project	Private company	16 May 2017	17 October 2017	0.3	—	—	0.4

BUSINESS

Project No.	Location	Project nature	Customer nature	Commencement date	Completion date	Awarded contract sum <i>HK\$ million</i> <i>(Note 1)</i>	Revenue recognised during the Track Record Period <i>(Note 2)</i>		
							FY2015 <i>HK\$ million</i>	FY2016 <i>HK\$ million</i>	FY2017 <i>HK\$ million</i>
16	Lai Ping Road, Kau To Shan, Shatin	Domestic sub-contractor/ Residential	Main contractor	15 August 2017	27 December 2017	6.3	—	—	6.3
17	Tong Yin Street, Tseung Kwan O	Domestic sub-contractor/ Residential	Main contractor	20 August 2017	30 March 2018	12.5	—	—	11.9

Notes:

1. Awarded contract sum refers to the contract value in the original contract entered into between our customer and us and may not include additions, modifications due to subsequent variation orders, and therefore final revenue recognised from a contract may differ from the awarded contract sum.
2. The revenue recognised during each year of the Track Record Period represents the audited revenue recognised for the three years ended 31 December 2017.
3. Out of the revenue generated from supply and installation services in FY2015, FY2016 and FY2017, HK\$3.0 million, HK\$0.1 million and nil were contributed from projects that had been completed prior to the Track Record Period.

BUSINESS

Projects on hand as at the Latest Practicable Date

As at the Latest Practicable Date, our Group had 11 supply and installation projects on hand, with a total outstanding contract value of approximately HK\$213.1 million. The following table sets out the details of our projects on hand as at the Latest Practicable Date in chronological order by project commencement date:

Project No.	Location	Project nature	Customer nature	Actual/expected commencement date	Expected completion date (Note 1)	Awarded contract sum (Note 2) HK\$ million	Revenue recognised during the Track Record Period (Note 3)			Estimated revenue to be recognised subsequent to the Track Record Period (Note 4) HK\$ million
							FY2015 HK\$ million	FY2016 HK\$ million	FY2017 HK\$ million	
18	Plantation Road, the Peak	Domestic sub-contractor/ Residential	Main contractor	18 September 2015	30 June 2018	31.7	—	29.9	2.8	1.8
19	Salisbury Road, Tsim Sha Tsui	Nominated sub-contractor/ Commercial	Main contractor through nomination of the ultimate owners of the project	27 February 2016	31 October 2018	18.3	—	14.0	3.8	0.9
20	Salisbury Road, Tsim Sha Tsui	Nominated sub-contractor/ Hotel	Main contractor through nomination of the ultimate owners of the project	18 May 2016	31 December 2018	54.0	—	39.2	10.8	12.2
21	Lai Ping Road, Kau To Shan, Shatin	Nominated sub-contractor/ Residential	Main contractor through nomination of the ultimate owners of the project	1 November 2016	30 June 2018	17.7	—	—	11.1	6.6
22	Tong Chun Street, Tseung Kwan O	Domestic sub-contractor/ Residential	Main contractor	9 December 2016	31 October 2018	68.8	—	—	58.6	10.2
23	Queensway, Admiralty	Domestic sub-contractor/ Commercial	Main contractor	29 March 2017	30 June 2019	31.3	—	—	9.3	22.0

BUSINESS

Project No.	Location	Project nature	Customer nature	Actual/expected commencement date	Expected completion date (Note 1)	Awarded contract sum (Note 2) HK\$ million	Revenue recognised during the Track Record Period (Note 3)			Estimated revenue to be recognised subsequent to the Track Record Period (Note 4) HK\$ million
							FY2015 HK\$ million	FY2016 HK\$ million	FY2017 HK\$ million	
24	Kai Tak, Kowloon	Nominated sub-contractor/ Residential	Main contractor through nomination of the ultimate owners of the project	20 June 2017	31 October 2018	21.5	—	—	—	21.5
25	Peak Road, Hong Kong	Domestic sub-contractor/ Commercial	Main contractor	28 August 2017	30 September 2018	12.7	—	—	10.4	2.3
26	Cotai, Macau	Domestic sub-contractor/ Commercial	Private company	2 July 2018	28 February 2019	43.0	—	—	—	43.0
27	Fo Yin Road, Tai Po	Domestic sub-contractor/ Residential	Main contractor	1 July 2018	31 March 2019	33.5	—	—	—	33.5
28	Po Shan Road, the Peak	Nominated sub-contractor/ Residential	Private company	29 October 2018	30 September 2019	59.1	—	—	—	59.1

BUSINESS

Notes:

- (1) The expected completion date for a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customer (if any) and the actual work schedule.
- (2) Awarded contract sum refers to the contract value in the original contract entered into between our customer and us and may not include additions, modifications due to subsequent variation orders, and therefore final revenue recognised from a contract may differ from the awarded contract sum.
- (3) Revenue recognised during the Track Record Period represents the sum of audited revenue from our continuing operations for FY2015, FY2016 and FY2017 which has taken into account of any additions or modifications due to variation orders recorded during the Tack Record Period.
- (4) Estimated revenue to be recognised included remaining contract sum to be recognised and variation orders recorded subsequent to the Track Record Period.

Stone sales

As disclosed in the paragraph headed "Our business model — Stone sales" in this section above, our stone sales can be broadly classified into two categories, namely (i) project-based contracts; and (ii) once-off sale on wholesale basis. For each of FY2015, FY2016 and FY2017, total revenue from sales of stone was approximately HK\$4.6 million, HK\$9.1 million and HK\$4.9 million respectively. During each of FY2015, FY2016 and FY2017, we have completed two, one and two projects.

As at the Latest Practicable Date, we had one on-going stone supply project, with a total outstanding contract value of approximately HK\$70.2 million.

Tender success rate

We keep soft copy of and assign a reference number for every tender we submit, irrespective of the results. Such arrangement generally facilitates us to carry out evaluation, review and adjustment of strategy in preparing future tenders. The following table sets forth our overall tender success rate for the supply and installation projects and stone sales projects for the periods indicated:

	FY2015	FY2016	FY2017
Number of tender invitation received	64	72	43
Number of tender invitation declined by the Company ⁽¹⁾	35	38	13
Number of tender submitted	29	34	30
Number of tender awarded ⁽²⁾	8	6	6
Tender success rate ⁽³⁾	27.6%	17.6%	20.0%

Notes:

- (1) We may decline the tender invitation when the projects involved skills outside our expertise or we expect do not have sufficient capital resources to take up additional projects or capacity of our project management team.

BUSINESS

- (2) Number of tender awarded, which represents number of project tendered in the year indicated and awarded in the same year or subsequent year, comprised:

	FY2015	FY2016	FY2017
Number of stone sales project awarded during the year	1	—	—
Number of supply and installation projects awarded during the year	2	3	4
Number of supply and installation projects awarded in subsequent year	5	3	2
	8	6	6

- (3) Tender success rate is calculated as the number of contracts awarded, divided by the number of tenders submitted during that financial year.

The number of tenders submitted is affected by, among others, our marketing strategy and the overall market condition. During the Track Record Period, due to the growth of the construction market, our Group had received increasing number of tender invitations. When preparing the tender, our Group considers the factors under the paragraph headed “Our business model — Operating procedures — Stage 1 — Tendering — Tender invitation” in this section. We may decline some of the tender invitations when we expect that we do not have sufficient resources to undertake the project. On the other hand, we may strategically submit tenders to enhance our presence in the market and to maintain our relationship with the customers. During the Track Record Period, our tender success rate decreased from 27.6% to 20.0% as we strategically participate in more tenders with a view to enhance our market presence and to maintain relationship with our customers. Despite the decrease in our tender success rate, our number of tender awarded maintained relatively stable at 8, 6 and 6 in FY2015, FY2016 and FY2017, respectively, and our revenue from our continuing operations increased from HK\$213.3 million in FY2015 to HK\$222.1 million in FY2016 and further to HK\$224.8 million in FY2017.

Seasonality

Our Directors consider that there is no material seasonal pattern of sales of our Group.

BUSINESS

OUR CUSTOMERS

During the Track Record Period, most of our revenue were derived from our projects in private sector. Our customers consist mainly main contractors in Hong Kong.

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

FY2015

Name of customer <i>(Note)</i>	Background of customer	Revenue contribution to our Group for the year <i>Approx. HK\$ million</i>	Approximate percentage to the total revenue from continuing operations of our Group for the year <i>(%)</i>	Business relationship commenced since
Customer A	A private company which is headquartered in Hong Kong and provides construction services in China and Southeast Asia. It has an annual turnover of US\$2 billion, and employs over 8,000 staff.	181.1	84.9	2007
Customer B	A subsidiary of a Hong Kong listed company and its principal activities include building construction and project management. The revenue of the listed parent company for the year ended 31 December 2017 amounted to approximately HK\$50.2 billion.	21.2	9.9	2005
Hip Hing Construction Company Limited	A subsidiary of a Hong Kong listed company and its principal activities include design and construction of building works. The revenue of the listed parent company for the year ended 30 June 2017 amounted to approximately HK\$31.4 billion.	1.8	0.9	2007
Customer D	A subsidiary of a Hong Kong listed company and its principal activity includes building construction. The revenue of the listed parent company for the year ended 31 March 2017 amounted to approximately HK\$7.0 billion.	1.6	0.7	2011
Customer E	An individual property owner	1.6	0.7	2014
Total revenue derived from our top five customers:		207.3	97.1	

BUSINESS

FY2016

Name of customer <i>(Note)</i>	Background of customer	Revenue contribution to our Group for the year <i>Approx. HK\$ million</i>	Approximate percentage to the total revenue from continuing operations of our Group for the year <i>(%)</i>	Business relationship commenced since
Customer A	A private company which is headquartered in Hong Kong and provides construction services in China and Southeast Asia. It has an annual turnover of US\$2 billion, and employs over 8,000 staff.	71.7	32.3	2007
Customer F	A subsidiary and one of the construction arms of a Hong Kong listed property developer and its principal activities include in providing the services of general contracting and construction management. The revenue of the listed parent company for the year ended 30 June 2017 amounted to approximately HK\$31.4 billion.	53.1	23.9	2016
Hip Hing Construction Company Limited	A subsidiary of a Hong Kong listed company and its principal activity includes design and construction of building works. The revenue of the listed parent company for the year ended 30 June 2017 amounted to approximately HK\$31.4 billion.	34.4	15.5	2007
Pacific Construction Limited	A private company incorporated in Hong Kong and engaged in provision of building and construction services.	26.1	11.7	2016
Customer H	A subsidiary of a Hong Kong listed company and its principal activity includes building construction. The turnover of the listed parent company for the year ended 31 March 2017 amounted to approximately HK\$3.2 billion.	15.3	6.9	2015
Total revenue derived from our top five customers:		200.6	90.3	

BUSINESS

FY2017

Name of customer <i>(Note)</i>	Background of customer	Revenue contribution to our Group for the year <i>Approx. HK\$ million</i>	Approximate percentage to the total revenue from continuing operations of our Group for the year <i>(%)</i>	Business relationship commenced since
Customer A	A private company which is headquartered in Hong Kong and provides construction services in China and Southeast Asia. It has an annual turnover of US\$2 billion, and employs over 8,000 staff.	62.4	27.7	2007
Pacific Construction Limited	A private company incorporated in Hong Kong and engaged in provision of building and construction services.	53.6	23.8	2016
Customer I	A private company incorporated in Hong Kong which is principally engaged in building and construction business.	45.8	20.4	2013
Customer F	A subsidiary and one of the construction arms of a Hong Kong listed property developer and its principal activities include providing services of general contracting and construction management. The revenue of the listed parent company for the year ended 30 June 2017 amounted to approximately HK\$31.4 billion.	14.6	6.5	2016
Customer J	A subsidiary of a Hong Kong listed Company and its principal activities include general contracting and building and civil engineering. The revenue of the listed parent company for the year ended 31 December 2017 amounted to HK\$10.3 billion.	11.1	4.9	2016
Total revenue derived from our top five customers:		187.5	83.3	

Note: Identity of certain of our major customers are disclosed on an anonymous basis because (i) agreements we entered with our customers commonly contain confidentiality provision which imposed obligations on our Group not to disclose any information relating to the agreement, including the identity of the customers, except with the customer's prior consent; and (ii) disclosing the relevant customers' identities without prior consent could constitute a breach of the explicit term or implied duty of confidentiality and expose our Group to legal liability and impair our relationship with the relevant customers. Up to the Latest Practicable Date, we have approached our top five customers during the Track Record Period and obtained consent from two of our customers for disclosure of their identities in this prospectus.

BUSINESS

Customer concentration

For each of FY2015, FY2016 and FY2017, the percentage of our total revenue from our continuing operations attributable to our five largest customers in aggregate representing approximately 97.1%, 90.3% and 83.3%, respectively. The percentage of our total revenue from our continuing operations attributable to our largest customer, Customer A, representing approximately 84.9%, 32.3% and 27.7% respectively for the same periods. The significant revenue contribution by Customer A during the Track Record Period was mainly due to the nature of our business being project-based and significant revenue generated from our largest project, being a luxurious residential project on Mount Nicholson Road at the Peak during the Track Record Period. According to the CIC Report, marble and granite works subcontractor usually have to focus its resources when engaging in a large scale building construction projects with relatively high complexity. Marble and granite works subcontractors in Hong Kong usually took on limited number of projects considering the heavy workload. It is an industry norm for a marble and granite works subcontractor to cooperate with a few customers with stable relationships when selecting projects, resulting in their relatively high customer concentration. Our Directors consider that despite the customer concentration, our Group is not reliant on any single customer and has a diversified portfolio of customers. During the Track Record Period, we had over 40, 20 and 30 customers respectively. Our Directors believe that our ability to undertake a project depends largely on the amount of working capital and capacity of our project management team. As we undertook a few large-scale projects during the Track Record Period, these projects occupied most of our capacities and limit the number of projects that we could undertake. To allow us to undertake more projects in the future, our Group would require more financial resources. Please refer to the paragraph headed “Business strategies — Expand our capacity to undertake projects of more sizeable scale” in this section and the section headed “Future plans and proposed use of proceeds” in this Prospectus for further details on our expansion plan.

None of our Directors, their associates or any Shareholder (who or which, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) has any interest in any of our five largest customers during the Track Record Period. All these five largest customers are Independent Third Parties. There was no history of default, early termination of projects or impairment of trade receivables with our five largest customers during the Track Record Period. We are not aware that during the Track Record Period, our Group experienced any major disruption of business due to material delay or default of payment by our customers due to 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 business. During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute with our customers.

BUSINESS

Key contract terms with our major customers

In general, contracts are awarded to us on a project-by-project basis and are non-recurring in nature. During the Track Record Period, we did not enter into any long-term contracts with any of our customers. The terms and conditions of the contracts with our customers generally include scope of work, price, conditions and specifications, payment terms, retention money, performance bond, variation order, defect liability period and liquidated damages. Set out below are the key common contract terms with our major customers during the Track Record Period:

Payment terms:	<p>The prices in our contracts are either in a fixed sum or stated to be provisional and subject to remeasurement, under which the actual quantity executed shall be ascertained by measurement valued in accordance with the rates and prices in the relevant contract and adjustment to the price shall be made accordingly.</p> <p>We generally provide our customers with a written statement of the value of all works done under the contract on a monthly basis. The credit period for settlement of payment by our customers generally ranges from 45 to 60 days from the date of invoice. Please refer to the paragraph headed “Our business model” in this section for further details.</p>
Bills of quantity and schedule of rates:	<p>Description of the type of work and the specification of the works together with the quantity and the unit price.</p>
Liquidated damages:	<p>If we fail to complete the contract works within the date of completion as set out in the contract, we may, subject to the rights for time extension, be required to compensate our customers a sum of liquidated damages calculated on the basis of a fixed sum per day or according to certain damages calculating mechanism as stipulated under the contract for the period which the works remain incomplete. During the Track Record Period and up to the Latest Practicable Date, we have not had any material liquidated damages claim made against us.</p>
Retention monies:	<p>Our customers are generally entitled to withhold 5–10% of each progress payment, subject to a maximum retention of 5% of the total contract value as retention money. Please refer to the paragraph headed “Our business model” in this section for further details.</p>

BUSINESS

- Performance bonds: For projects which we are appointed as nominated subcontractor and some of the sizeable projects which we are appointed as a domestic subcontractor, we may be required to take out a performance bond issued by a bank or an insurance company of 10% of the contract sum to secure our Group's due performance of the contract. The performance bonds normally expire after completion of the project or as specified in the relevant contract. During the Track Record Period and up to the Latest Practicable Date, no performance bond had been called by our customers by reason of late completion of any of our projects.
- Defect liability period: We are required to remain responsible for remedying any defects or imperfections discovered in relation to our works done for around 12–24 months after completion of our contracts. Please refer to the paragraph headed "Our business model" in this section for further details.
- Termination: Our customers may terminate our contract by written notice if we fail to take correctional measures to rectify any default after receiving notice from the main contractor within the specified period of time; or if we become bankrupt, have receiving order made against us, or shall go into liquidation or winding-up other than a voluntary liquidation for the purposes of amalgamation or reconstruction.

Credit control

We have adopted stringent credit control procedures and regularly monitor our working capital on an on-going basis to minimise potential credit risks. Details of our credit control policy is set out below:

- all new customers must go through our credit review procedures, except for customers who are listed on a stock exchange, strong reputation in the industry or favourable history of business dealings with us
- after a contract has been awarded, the project manager must prepare a work programme to delineate tasks to be performed and establish timeline for completion of each task
- the project manager must prepare a periodic progress report for each project highlighting with explanation, areas that deviate from the work programme, which will be submitted for the review by the project director
- the quantity surveyor must prepare a periodic progress report based on progress payment application for review and approval by the project director on a monthly basis
- after the receipt of a payment certificate, the quantity surveyor must verify the payment certificate against the payment application, resolve any discrepancy and notify the accounting department for invoicing the customer for the amount
- the accounting department must prepare an accounts receivable ageing analysis report on a periodic basis to our chief financial officer and chief executive officer

BUSINESS

- our chief financial officer and chief executive officer review the accounts receivable ageing analysis report regularly to (i) ensure that sufficient action is taken to collect items that are overdue; (ii) resolve items that are under dispute; (iii) provide for items where collection is in doubt; (iv) make decision to write off items which have no likelihood of being collected

Some of our customers may take a longer time to review our payment application (in particular when more variation works are involved) and upon request from our customers, we may allow certain customers a longer credit term. We may decide to allow the aforementioned longer periods, after taking into consideration factors including but not limited to, reputation of our customer, the value of the relevant contract, the prospect of future contracts, the relationship with such customers and their past payment history.

Pricing strategies

Our Group usually determines the price on a project-by-project basis depending on (i) the nature, scope and complexity of the projects; (ii) the estimated subcontracting cost; (iii) cost and origin of materials; (iv) completion time required by our customers; (v) availability of our Group's resources and expertise; (vi) the market conditions; (vii) our working capital and financial conditions; (viii) our relationship with the customers; and (ix) capacity of our project management team.

Sales and marketing

Our projects were mainly awarded by way of tenders invited by our customers directly during the Track Record Period. Our Directors consider that our reputation, our past project references, our technical expertise and our good relationships with customers are major factors considered by our customers in selecting their contractors.

Our chief executive officer and our marketing director are generally responsible for maintaining customers' relationship and keeping abreast of market developments and potential business opportunities.

Our sales and marketing team works year round to ensure potential customers have our Group on top of their mind for their contracting needs through visiting trade fairs and participating in industry events and other related activities to maintain and expand our business networks. In addition to building customer relationships and generating leads, our executive team also keeps a pulse on the latest market developments and potential business opportunities to work with our senior project managers to ensure our customers' future needs will be met.

OUR SUPPLIERS AND SERVICES PROVIDERS

Our major suppliers and service providers include suppliers for stone blocks or slabs, cut-to-size panels, suppliers of accessories, fabricators, design company providing drawing services and installation subcontractors. During the Track Record Period and prior to 2016, we primarily purchased stone blocks or slabs from stone suppliers and then engage fabricators in the PRC to fabricate into cut-to-size panels according to our customers' specification. Since 2016, we started to purchase cut-to-size panels from our fabricators who procure blocks or slabs from the quarry or stone suppliers designated by us. Please refer to the paragraph headed "Our business model — Supply and installation services" in this section for further details.

BUSINESS

For each of FY2015, FY2016 and FY2017, purchases attributable to our five largest suppliers and service providers amounted to approximately HK\$77.1 million, HK\$127.2 million and HK\$129.8 million, respectively, representing approximately 60.5%, 87.1% and 87.5% of our total purchase, and purchases attributable to our largest supplier or service provider, Supplier A, amounted to approximately HK\$25.7 million, HK\$63.8 million and HK\$71.7 million, respectively, representing approximately 20.2%, 43.7% and 48.3% of our total purchase.

The following sets out the profile of our top five suppliers and service providers during the Track Record Period:

FY2015

Name of supplier/ services provider	Principal business of the supplier/ services provider	Service/products provided	Purchase for the year <i>Approx.</i> <i>HK\$ million</i>	Approximate percentage of the total purchase of our Group for the year <i>(%)</i>	Business relationship commenced since
Supplier A	A stone supplier and installation subcontractor in Hong Kong	Installation services	25.7	20.2	2013
Supplier B	A stone installation subcontractor in Hong Kong	Installation services	21.4	16.8	2013
Supplier C	A stone supplier in the PRC engaged in import and export of marble and granite	Supply of stones	11.0	8.6	2008
Supplier D	A Hong Kong incorporated company engaged in installation of stones	Installation services	10.8	8.5	2014
Supplier E	A stone installation subcontractor in Hong Kong	Installation services	8.2	6.4	2014
Total purchases with our top five suppliers/services providers:			77.1	60.5	

FY2016

Name of supplier/ services provider	Principal business of the supplier/ services provider	Service/products provided	Purchase for the year <i>Approx.</i> <i>HK\$ million</i>	Approximate percentage of the total purchase of our Group for the year <i>(%)</i>	Business relationship commenced since
Supplier A	A stone supplier and installation subcontractor in Hong Kong	Supply of stones and installation services	63.8	43.7	2013
Supplier F	A stone supplier in Hong Kong	Supply of stone	22.3	15.3	2011
Supplier D	A Hong Kong incorporated company engaged in installation of stones	Installation services	15.8	10.8	2014
Supplier G	A stone supplier incorporated in Hong Kong	Supply of stones	15.7	10.7	2016
Supplier H	A Hong Kong incorporated company engaged in provision of interior design	Provide drawing services	9.6	6.6	2015
Total purchases with our top five suppliers/services providers:			127.2	87.1	

BUSINESS

FY2017

Name of supplier /services provider	Principal business of the supplier/ services provider	Service/products provided	Purchase for the year <i>Approx.</i> <i>HK\$ million</i>	Approximate percentage of the total purchase of our Group for the year <i>(%)</i>	Business relationship commenced since
Supplier A	A stone supplier and installation subcontractor in Hong Kong	Supply of stones and installation services	71.7	48.3	2013
Supplier I	A stone trading company in Hong Kong	Supply of stones	24.9	16.8	2017
Supplier J	A stone supplier and installation subcontractor in Hong Kong	Supply of stones and installation services	12.8	8.6	2017
Supplier F	A stone supplier in Hong Kong	Supply of stones	12.0	8.1	2011
Supplier K	A Hong Kong incorporated company engaged in installation of stones	Installation services	8.4	5.7	2017
Total purchases with our top five suppliers/services providers:			129.8	87.5	

None of our Directors, their associates or any Shareholder (who or which, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) has any interest in any of our five largest suppliers or service providers during the Track Record Period. All these five largest suppliers or service providers are Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute with our suppliers or service providers.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any difficulty in material procurement or engagement of subcontractors. The substantial increase in our purchase from our five largest suppliers or service providers for FY2016 and FY2017 was mainly attributable to the new stone procurement arrangement since 2016 under which we engaged the fabricators to also procure the blocks or slabs from the stone suppliers designated by us for the sake of transferring risk of wastage of materials in addition to the budgeted range during fabrication process to our fabricators. However, our Directors consider that we have not overly relied on any of our suppliers or service providers as we continue to take up an active role in identifying and liaising with the ultimate stone suppliers during the stone procurement process while the fabricators merely procured the stones under our instructions and supervision. There were approximately 19 approved fabricators on our internal list as at the Latest Practicable Date. Our Directors believe that we are able to engage alternative fabricators and if necessary, we can purchase the blocks or slabs directly from the stone suppliers ourselves, as we previously did prior to 2016.

Except for the distribution agreement we entered into with one of our suppliers which gives us exclusive distribution rights in Hong Kong and Macau for one type of limestone known as Gascogne Beige from Portugal, we do not have long-term contracts with any of our suppliers. There is no minimum purchase requirement under the distribution agreement. According to CIC Report, Gascogne Beige are creamy gold and beige limestones with natural European aesthetic appeal with density and porosity which are suitable for external wall installation. This kind of stones have been selected by our customers for our supply and installation contract, for example, certain wall for a luxurious residential

BUSINESS

development work at Austin Station, commercial complex redevelopment project at Tsim Sha Tsui as well as three luxury residential projects located at the Peak. We have used Gascogne Beige in 6 of our projects, including projects completed during the Track Record Period and on-going projects as at the Latest Practicable Date.

Usual terms of contracts with our suppliers

Our purchase contracts are entered with our suppliers on an order-by-order basis, which generally specify the type, quantity, price and delivery of the material that we purchased. The price is determined by reference to the market price at the time. However, as we do not enter into any contracts with our suppliers until the project has been awarded to us, we may not be able to successfully pass the price difference to our customer if there is any significant price fluctuation after we submit our tender document. Please refer to the section headed “Risk factors — Risks relating to our business — We make estimation of our project costs in our tenders and any failure to accurately estimate the cost involved and/or delay in completion of any project may lead to cost overruns or even result in losses” in this Prospectus.

Generally, our suppliers offered us credit terms of approximately 30 to 90 days after receipt of goods. During the Track Record Period, as some of our suppliers in the PRC do not have a straightforward avenue to receive RMB from offshore bank accounts or foreign currency, we have, at the request of those suppliers, settled trade payables with them through their designated agents. Since June 2015, we had ceased to place orders with suppliers in PRC which require settlement in RMB. Please refer to the paragraph headed “Legal compliance” in this section for further details. We have not had any material dispute with our suppliers and have maintained good working relationship with them. Barring unforeseeable circumstances, we do not foresee any difficulties in sourcing materials in the future.

With respect to our stone procurement arrangement as at the Latest Practicable Date, we normally enter into a sale and purchase agreement with our stone suppliers containing the following salient terms:

- Duration: No fixed period is normally specified in the contract.
- Price: A unit price per square metre is normally specified in the contract, which comprises the costs of materials, fabrication, tax, custom clearance, transportation and other related expenses. However, if any of such costs are paid by us, such costs shall be deducted from the contract price.
- Responsibilities: The supplier shall be responsible for:
- (i) procuring the blocks/slabs from the stone suppliers designated by us;
 - (ii) providing the cut-to-size panels based on the specifications provided by us;
 - (iii) delivery of the cut-to-size panels to the location designated by us;
 - (iv) submitting the samples of cut-to-size panels for our prior approval; and

BUSINESS

- (v) replacement of any defective or substandard cut-to-size panels at its own costs based on our inspection findings.

We shall be responsible for:

- (i) inspecting the cut-to-size panels upon their arrival at the construction site; and
- (ii) payment of the contract price based on the actual quantity of cut-to-size panels provided and the unit price specified in the contract.

Default: If the supplier is unable to deliver the stones as required by us under the contract, we may procure similar stones from other suppliers and the supplier shall be responsible for the related costs.

Termination: The contract normally does not contain any termination clause.

Usual terms of contracts with our subcontractors

Our installation subcontractors are not our employees or agents. Our subcontracting contracts with them, to certain extent, vary in accordance with the terms of the main contracts with our customers for meeting the contractual requirements of our customers. In general, however, the agreements with our installation subcontractors as at the Latest Practicable Date also include the following principal terms:

- Retention monies** : Retention money of 5%–10% of the value of work done, subject to a maximum retention of 5% of the total contract value (the amount may vary according to the contract terms with our customers). 50% of the retention money will be released within one month after the issue of certificate of practical completion of the project and the remaining 50% of the retention money will be released within one month after the issue of certificate of completion of making good defects or after the expiry of the defect liability period.
- Certification of works** : Our subcontractors may provide us with a written statement of the value of all works done on a monthly basis and payment for certified works will be made within 30 days.
- Assignment** : Restrictions on our subcontractors from further assignment or subcontracting of works without our permission.
- Defects liability** : Subcontractors' obligations to rectify any defects discovered during the defect liability period, which is typically 12 to 24 months from the date of completion (the duration may vary according to the contract terms with our customers).

BUSINESS

- Subcontractors' obligations : Subcontractors' obligations to comply with our requirements and the relevant requirements of the governmental authorities, our customers and architects; and
- Compensation : Subcontractors' obligations to compensate us for damages and fees suffered or incurred by us due to the subcontractors' negligence.

For certain minor works such as polishing of walls and sealant work, the contracts with our subcontractors generally only cover basic terms including scope of work, contract sum and payment terms.

Liabilities and control measures

We are liable to our customers for the performance of our subcontractors under the main contract entered into between us and our customers, which includes acts, defaults or neglects of our subcontractors. We generally require subcontractors to rectify all defects or other faults in the subcontract works that they engaged in within the defect liability period after the project is completed.

In order to manage the progress and quality of work conducted by our subcontractors, we typically engage subcontractors we have cooperated for a number of years. Our site managers and/or project coordinators conduct regular review on work progress with the appointed subcontractors. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage in our material procurement from our suppliers or complaints from our customers with respect to the fabrication work or any delayed performance by our subcontractors and we had not received any material claims or complaints from our customers for substandard work of our subcontractors.

INVENTORY

During the Track Record Period, our inventories were raw materials that primarily consist of (i) marbles and granite as trading stock and (ii) blocks and slabs and cut-to-size panels for project use. In 2016, we started to only purchase cut-to-size panels that would be delivered from our suppliers to the construction site directly, hence we did not hold any inventories as at 31 December 2016 and 31 December 2017. For further details, please refer to the section headed "Financial information — Description of certain items of combined balance sheets — Inventories" in this Prospectus.

QUALITY CONTROL

Our Directors believe that our results and hence our profits depend on our ability to meet our customers' and the end-users' requirements in all respects. In pursuit of quality excellence, we have assigned our quality assurance and quality control staff to oversee the procurement and fabrication process.

We believe that quality assurance would serve as a preventive measure so that stones quality requirements and specifications of our customers will be fulfilled. We have assigned our quality assurance and control manager who has over eight years of experience to be in charge of stone selection and samples examination. In addition, Mr. Lui who has more than 35 years of experience in stone selection and fabrication quality control closely monitor the process and provide advice to our Group. Our quality assurance and control staff in charge of checking the final products to ensure its intended

BUSINESS

use and specifications match the requirements of our customers. They also monitor and ensure that the project is on schedule and the cut-to-size panels are delivered to construction sites for installation according to our work programme.

In addition, we have assigned full time project co-ordinators and site managers who would station in the construction sites. They are a part of our project management team and are responsible for ensuring appropriate quality control during the installation process. They are required to prepare installation progress report on a daily basis and manage all communication with subcontractors and our head office. Our project coordinators also participate in site meetings regarding safety, rules and regulations, material and supply chain management issues on a regular basis.

We have developed quality control procedures to ensure the quality of stone we supply meets the requirements of our customers. We are generally involved in the quality control of the procurement process from stone selection, fabrication to delivery of the materials to our customers or subcontractors for installation. The key quality control procedures are set out below:

Steps	Actions
Stone selection	— Our quality assurance and control manager, together with the facade/design consultant representative, architect representative and representative of our customers will conduct physical visit to target quarry to carry out work including (i) choosing the desired stone colour range; (ii) establishing the bench, layer and locations where the particular colour range will be quarried; and (iii) determining if there is sufficient stones of the desired colour for the project.
Blocks selection	— Our quality control staff will examine the blocks. Blocks with defects including cracks, badly chipped edges, stress fractures, excessive microcracking, holes, pits, inclusions, surface weathering, staining or any feature which the architect considers unacceptable or detrimental to the performance of the stone will be rejected. Testing of stone will be carried out to ensure compliance with the stone specification and the requirements of any relevant regulatory authorities.
Fabrication	— Once the block has been sawn and the slabs exposed, each cut-to-size panel will be individually inspected, ensuring that the cut-to-size panel produced will correspond to the control samples previously selected. — After the slabs have been cut into finished pieces, we will carry out a pre-laying check to inspect the size and colour range of the panels. With respect to marbles and granites for exterior use, further testing will also be carried out on a sampling basis to ensure that any deviation is within the manufacturing tolerances in accordance with the stone specifications and the panels fulfil the strength requirements.

BUSINESS

Steps	Actions
Installation	— Our site manager/project co-ordinator will monitor the installation work carried out by our subcontractors to ensure that the stone panels are handled and transported in the construction site in a safe manner to prevent any damage, and that the stone panels are installed in the correct alignment and in accordance with approved drawing. We will also coordinate with other contractors on site to ensure the proper installation of our marbles and granites.

ENVIRONMENT

Our Directors believe that it is essential for us to act as an environmentally responsible contractor to meet the customers' demands in environmental protection and the expectation of the community for a healthy living environment.

We are committed to minimising any adverse impact on the environment resulting from our business activities, for example, our stringent quality control measures on stone fabrication can help avoid the need to carry out on-site remedial fabrication works so as to cut down dust emission. In addition to complying with the relevant laws and regulations in relation to environmental protection such as noise control and air pollution as set out in the section headed "Laws and regulations" in this Prospectus.

We also adopted an environmental protection policy to encourage our staff to contribute towards sustainability by adopting environmentally friendly construction method and planning their works to efficiently eliminate waste to the maximum extent with the view to achieving long-term cost savings.

HEALTH AND SAFETY

We are committed to providing a safe and healthy working environment for the benefit of our employees and our subcontractors. We have established a safety plan which sets out a health and safety management programme for safety assurance and accident prevention. Our employees are not engaged in the provision of any installation works and the principal exposure of our employees to any work safety occurs when our employees are required to be on-site for site visits and perform inspection of our project's progress. We emphasise to our employees that strict compliance with safety requirements is vital to ensure that there are no accidents to themselves or others that work on our projects.

We conduct regular safety inspections to ensure our operations are conducted in a manner so as to reduce the risks to persons and properties. In addition, we provide safety training to all of our employees at the sites for which we are responsible for compliance with the safety regulations. We require our subcontractors to abide by all applicable laws, regulations and safety requirements imposed by the relevant government authorities.

BUSINESS

Accidents during the Track Record Period

During the Track Record Period and up to the Latest Practicable Date, there were 30 accidents involved workers who were employed by our subcontractors. All of these accidents occurred in Hong Kong. As at the Latest Practicable Date, the Company is not aware of any claim or legal proceeding has been commenced by the injured persons.

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.

Either we or our customers have taken out insurance in compliance with applicable laws and regulations to provide sufficient coverage for such work-related injuries for workers on site and we have not incurred any material liabilities as a result thereof. As such, these incidents did not and are not expected to have a material impact on our Group's operations. For further details of our insurance policies, please refer to the paragraph headed "Health and safety — Insurance" below in this section.

A comparison of the accident rate per 1,000 workers and fatality rate per 1,000 workers of our Group against the industry average in Hong Kong is set out below:

	Construction industry average rate <i>(Note 1)</i> ‰	Our Group's rate <i>(Note 2)</i> ‰
FY2015		
Accident rate per 1,000 workers	39.1	8.33
Fatality rate per 1,000 workers	0.2	—
FY2016		
Accident rate per 1,000 workers	34.5	3.17
Fatality rate per 1,000 workers	0.093	—
FY2017		
Accident rate per 1,000 workers	Not available	7.25
Fatality rate per 1,000 workers	Not available	—

Notes:

1. The figures are extracted from the Occupational Safety and Health Statistics Bulletin Issue No. 17 (August 2017) by Occupational Safety and Health Branch of the Labour Department.
2. Calculated as the number of accidents during the year divided by the estimated average number of workers employed by our Group and our subcontractors during the year.

BUSINESS

Insurance

During the Track Record Period, our Group was engaged either as a domestic subcontractor or a nominated subcontractor for our supply and installation projects. In the event that our Group is engaged as a domestic subcontractor, our Group's customer or the main contractor is responsible for the contractors' all risk insurance policies which cover our Group's liabilities arising from potential damage to the buildings or structures as well as potential bodily injury to third parties or damage to third parties' properties as a result of the performance of our Group's subcontracted works. In the event that our Group is engaged as a nominated subcontractor, our Group may be responsible for purchasing the employees compensation insurance policies for its employees and its subcontractor's employees. Such insurance policy generally extends for the entire contract period, including the defect liability period following completion of the project.

Our Group has insurance cover for our liabilities under employees' compensation and personal injury claims which meets the statutory minimum insurance coverage. Our Group considers such insurance coverage being generally sufficient for our liabilities under employees' compensation claims and personal injuries actions. For FY2015, FY2016 and FY2017, our insurance expenses were approximately HK\$59,000, HK\$102,000 and HK\$134,000, respectively.

Taking into account the prevailing industry practice and our current operations, our Directors are of the view that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and are in line with the industry norm.

MARKET AND COMPETITION

According to the CIC Report, the business of marble and granite works is concentrated in Hong Kong. There are around 50 marble and granite works subcontractors in Hong Kong, with the top five companies accounting for an aggregate market share of approximately 50.8%. Our Group is one of the top players in the business of marble and granite works in Hong Kong by revenue. The major entry barriers for marble and granite works subcontractors include (i) the ability to establish a good track record and reputation; (ii) having an extensive customer network and good relationships with customers; (iii) the ability to source raw materials from quarry owners directly; and (iv) having sufficient capital for purchase of materials and making payment to subcontractors.

According to the CIC Report, it is expected that there will be increasing demand for marble and granite works in Hong Kong. The growth in the marble and granite works industry will be mainly driven by the growing number of hotels, higher standards of overall construction and fit-out industry for high-end properties, infrastructure projects initiated by the Hong Kong government as well as increasing demand for redevelopment and rehabilitation of old buildings. For further information regarding the competitive landscape of the industry in which our Group operates, please refer to the section headed "Industry overview" in this Prospectus.

BUSINESS

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we have registered the trademark **ANCHORSTONE** in Hong Kong. We are also the registered owner of the domain name www.anchorstone.com.hk. Detailed information of our intellectual property rights is set out in the section headed “Statutory and general information — B. Further information about our Company’s business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

As at the Latest Practicable Date, we are not aware of any infringement (i) by our Group of any intellectual property rights owned by any third parties; or (ii) by any third party of any intellectual property rights owned by us. During the Track Record Period and up to the Latest Practicable Date, there had not been any pending or threatened material claims made against us, nor had there been any material claims made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.

EMPLOYEES

As at the Latest Practicable Date, we had 36 full-time employees who were directly employed by our Group. A breakdown of our employees by function as at the same date is set out below:

	As at the Latest Practicable Date
Management (Corporate strategies and business development)	1
Management (Accounting and finance)	1
Management (Marketing)	1
Project operation	
— Project management	6
— Project coordination	10
— Quantity surveyor	3
— Quality assurance and control	1
Procurement and administration and information technology	8
Accounting and finance	<u>5</u>
Total	<u><u>36</u></u>

The relationship and co-operation between our management and employees have been good and are expected to remain amicable in the future. There has not been any incident of strike or labour shortage during the Track Record Period and up to the Latest Practicable Date, which adversely affected our operations.

We believe that our employees are important assets to our Group. We provide on-the-job trainings to our employees and they are required to attend occupational safety courses provided by Construction Industry Council.

The remuneration package we offer to our employees includes salary, discretionary bonuses and allowance. We review the performance of our employees from time to time in order to determine salary adjustments and promotion appraisals.

BUSINESS

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had no material non-compliance with all the applicable employment laws, rules and regulations in Hong Kong.

PROPERTIES

We do not own any property and we lease all of the premises occupied by us. As at the Latest Practicable Date, we leased a property in Hong Kong, which is used as office premises. The following table sets forth certain details of our leased property as at the Latest Practicable Date:

Location	Usage	Landlord	Duration of lease	Approximate gross floor area	Monthly rental
Unit 2302, 23/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay	Office	Independent Third Party	1 October 2017 to 30 November 2018	5,061 square feet	HK\$201,000 (exclusive of management and air-conditioning charges, government rates and other outgoings)

INTERNAL CONTROLS AND RISK MANAGEMENT

We have in place policies and procedures in relation to internal control and risk management. Our Board is primarily responsible for overseeing our internal control and risk management system and for reviewing their effectiveness.

In order to continuously improve our Group's corporate governance, in preparation of the Listing, our Group has engaged C.W. Fan & Co. Limited, an independent external consulting firm, as the Group's independent internal control adviser (the "**Independent Internal Control Adviser**") in December 2015 and July 2017 to undertake a review on the internal control system on internal control environment, financial reporting procedures, internal control over revenue and accounts receivable, procurement, accounts payable and payment, human resources, treasury operations, tax expenses, inventory management, information technology, and compliance procedures of certain rules and regulations. The Independent Internal Control Adviser mainly engages in providing a broad range of corporate governance and risk advisory, internal audit, and internal controls regulatory compliance services to its customers including listed companies and companies preparing for listing in Hong Kong. Based on its internal control review, the Independent Internal Control Adviser concluded that it did not note any material deficiency over our Group's internal control mechanism.

BUSINESS

During the Track Record Period, we assessed and managed the risks arising from our operations based on the experience of our Group's management and our professional and technical staff. As advised by the Independent Internal Control Adviser, in order to improve our Group's internal control and risk management system in the future, our Group has established the following on-going process for identifying, evaluating and managing the significant risks faced by our Group. The key procedures that our Group has established and implemented are summarised as follows:

- (i) our Board will set up and review business objective, strategy and plan on an annual basis;
- (ii) risk identification and assessments are undertaken throughout the year, but in any event must be undertaken on an annual basis and will be reviewed by our Audit Committee;
- (iii) after assessment of risk, our senior management will analyse the likelihood of the risk occurring, the consequence of the risk and mitigation strategies;
- (iv) our company secretary will keep the Board posted for regular updates until the follow-up measures are fully implemented;
- (v) independent assessment procedures on the effectiveness of our strategies will be formally developed, and carried out regularly by senior management annually.

Our Directors confirm that during the Track Record Period, no material failure occurred and we believe that our internal control and risk management system are sufficient and effective.

LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group has been or is involved in a number of claims and litigations.

We set out below a summary of the major litigation and potential claims against our Group arising out of our ordinary and usual course of business during the Track Record Period and up to the Latest Practicable Date.

(i) Employees' compensation claims and personal injury claims incurred during the Track Record Period up to the Latest Practicable Date

During the Track Record Period and up to the Latest Practicable Date, there were three employees' compensation and personal injury claims against our Group, which had all been settled and our liabilities were covered by the relevant insurance policy taken out by the main contractor.

(ii) Outstanding personal injury claim as at the Latest Practicable Date

As at the Latest Practicable Date, there was one outstanding personal injury proceedings brought against, our subcontractors, our main contractor and us jointly. It was related to an accident occurred to an employee of our subcontractor. The amount being claimed was approximately HK\$8.5 million. As at the Latest Practicable Date, the plaintiff and the defendants were attempting to resolve the claim through mediation. Our potential liability is expected to be fully covered by the relevant insurance policy taken out by the main contractor.

BUSINESS

(iii) Potential employees' compensation claims and personal injury claims as at the Latest Practicable Date

During the Track Record Period and up to the Latest Practicable Date, there were 30 accidents involving the employees of our subcontractors. As of the Latest Practicable Date, the Company is not aware of any claim or legal proceeding having been commenced by the injured persons against our Group.

Out of these 30 accidents:

- Three accidents happened more than three years ago and any potential claims relating to such accidents had been time barred as of the Latest Practicable Date. Under the Employees' Compensation Ordinance, the time limit for a plaintiff to commence an application for employees' compensation is two years from the date of the relevant incident, while the time limit for a common law personal injury claim is three years from the date of the relevant incident.
- 24 accidents have not been time barred but were covered by the relevant insurance policies taken out by the relevant main contractors with respect to our liabilities under the relevant possible potential claims.
- In relation to the remaining accident we have settled with the injured person for an insignificant amount. In any event, there was an insurance policy which provided cover for our liabilities under the relevant possible potential claim.

In light of the above, our Directors are of the view that such potential claims have no material adverse impact on our financial condition nor causing material disruption to our Group's operations.

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.

LEGAL COMPLIANCE

Save as disclosed below, our Directors confirm that there was no material non-compliance of our Group during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we have settled trade payables with our suppliers in the PRC through (i) certain third parties, where our Group paid the trade payable in HKD to a third party in Hong Kong, then such third party remits the equivalent amount in RMB to a designated PRC bank account according to our PRC suppliers instruction or our Group paid the trade payable in HKD to our PRC suppliers designated bank account of its staff in Hong Kong ("**Type 1 Payment Arrangement**") or (ii) Mr. Lui or his associated company paid the trade payable in RMB through their bank account in PRC to a designated bank account of our PRC supplier at their request. Such amount payable to our suppliers may be offset, where relevant, against any amount receivable by Mr. Lui from the respective, and we settle the amount of trade payable with Mr. Lui outside the PRC ("**Type 2 Payment Arrangement**").

BUSINESS

The reasons for such arrangements were (i) some of our suppliers in the PRC do not have a direct avenue to receive RMB from offshore bank accounts or foreign currency; and (ii) out of convenience as our related parties maintained bank accounts in the PRC.

The amount of RMB related purchase settled through Type 1 Payment Arrangement for each of FY2015, FY2016 and FY2017 were HK\$11.4 million, nil and nil respectively, while the amount of RMB related purchase settled through Type 2 Payment Arrangement for the same period were HK\$1.2 million, nil and nil respectively.

In respect of the Type 1 Payment Arrangement, the third parties involved in the remittance of the trade payable to our PRC suppliers included (i) a company which engages in the business of currency exchange; (ii) a Financier incorporated in Hong Kong principally engaging in the provision of financing services for export and import trading; (iii) a related company; and (iv) individuals designated by our PRC suppliers. As advised by our PRC Legal Advisers, as our Group has not made payment within the PRC, we are not subject to the PRC laws, rules and regulations including Foreign Currency Administration Rules of the PRC (2008 Revision) 《中華人民共和國外匯管理條例(2008年修訂)》(the “**Foreign Currency Administration Rules**”) and we have not breached or would not be considered to have breached or circumvented any laws, rules and regulations, including among others, the foreign exchange and anti-money laundering related laws, rules and regulations of the PRC.

Our PRC Legal Advisers further advised that in respect of the Type 2 Payment Arrangement, according to the Foreign Currency Administration Rules and the notice issued by the State Administration of Foreign Exchange on the interpretation and applicable principles of the Foreign Currency Administration Rules, the making payment by Mr. Lui and his associated company to our suppliers in the PRC and subsequently settling the amount paid on our behalf in Hong Kong dollars may constitute an act of illegal foreign exchange arbitrage (非法套匯) (the “**Arbitrage**”). The foreign exchange authority has the power to order the funds involved in the Arbitrage to be reconverted and to impose a fine of not more than 30% of the amount of foreign exchange involved the Arbitrage; if the circumstances are serious, a fine of not less than 30% of the amount of foreign exchange involved in the Arbitrage but not more than the total amount involved shall be imposed.

The Administrative Punishment Law of the People’s Republic of China provides that unless otherwise specified by law, a person whose unlawful acts are not discovered within two years from the date the relevant acts were committed is not subject to any administrative punishments. The Procedures of the State Administration of Foreign Exchange on Examining Handling Cases of Acts Violating Foreign Exchange Rules provides that unless otherwise specified by law, a person whose acts violate the administration of foreign exchange but are not discovered within two years from the date the relevant acts were last committed (in the case where such acts were committed on a recurring basis) is not subject to any administrative punishments. As advised by our PRC Legal Advisers, as the making of payment by Mr. Lui and his associated company to our suppliers in the PRC have ceased in June 2015, the limitation period for administrative penalty has passed and therefore Mr. Lui and his associated company will not be subject to administrative penalty.

According to the Criminal Law of the PRC (中華人民共和國刑法), the Decision of the Standing Committee of the National People’s Congress of the PRC on the Punishment of Crimes of the Purchase of Foreign Currencies by Deceitful Means, the Foreign Exchange Evasion and Illegal Buying and Selling of Foreign Currencies (全國人民代表大會常務委員會關於懲治騙購外匯、逃匯和非法買賣外匯犯罪的決定) and the Interpretation issued by the Supreme People’s Court of the People’s Republic of China on

BUSINESS

Adjudicating Criminal Cases of the Purchase of Foreign Currencies by Deceitful Means, and Illegal Buying and Selling of Foreign Currencies (最高人民法院關於審理騙購外匯、非法買賣外匯刑事案件具體應用法律若干問題的解釋), the making of payment by our Related Parties to our suppliers in the PRC will not result in criminal liability.

In respect of such payment arrangement, our Directors are of the view that our Group faces no risk of possible claims from the relevant PRC suppliers because (i) such payment arrangements were initiated from the payment instructions given by the relevant PRC suppliers to our Group; (ii) our Group were merely discharging payment obligations by effecting payment to the third parties according to the relevant PRC suppliers' instructions; and (iii) the relevant PRC suppliers had confirmed their receipt of the amount paid by our Group indicating relevant payment obligations were discharged by our Group.

Having consulted the Hong Kong legal advisers to the Company, our Directors are of the view that our Group will not be subject to money laundering risks by virtue of the fact that such settlement arrangement in the past did not involve proceeds of, or was used in connection with, an indictable offence or drug trafficking or represent funds used to commit terrorist acts under the Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong), the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) and the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) respectively. Our Group had only effected payments to third parties for goods delivered or services rendered from such PRC suppliers in order to discharge our Group's payment obligations, which was merely a case of payment for goods or services received by our Group in our ordinary course of business.

LICENCE & PERMITS

Save as disclosed in the section headed "Laws and regulations" in this prospectus, there is no specific licencing requirement for conducting our Group's business in Hong Kong in addition to what is generally required for carrying on businesses in Hong Kong. As at the Latest Practicable Date, our Group has obtained all material licences, permits and certificates which are necessary for its operations in Hong Kong.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial information, including the notes thereto, as set out in “Appendix I — Accountant’s Report” to this prospectus. The combined financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors” and elsewhere in the prospectus.

OVERVIEW

We are a leading and well-established subcontractor in Hong Kong specialising primarily in supply and installation of marble and granite for construction projects, with an operation history of over 22 years. In 2016, we were the second largest marble and granite works contractor in Hong Kong in terms of revenue with a market share of approximately 11.0%, according to the CIC Report.

For each of FY2015, FY2016 and FY2017, our total revenue from continuing operations was HK\$213.3 million, HK\$222.1 million and HK\$224.8 million, respectively. Our profit for the respective years from our continuing operations was HK\$44.2 million, HK\$27.4 million and HK\$25.3 million, while our loss for the same period from our discontinued operations was HK\$0.4 million, nil and nil, respectively.

BASIS OF PRESENTATION AND PREPARATION

The financial information has been prepared by our Directors based on accounting policies which conform with HKFRS issued by the HKICPA, on the basis of presentation and preparation as set out in notes 1.3 and 2.1 in section II of the Accountant’s Report contained in Appendix I to this prospectus, and no adjustments have been made in preparing the financial information.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

The overall construction market

The demand for our stone products and installation services greatly depends on the market for construction of new properties as well as renovation of existing properties which could be in turn affected by the market sentiment of overall property market, investment of property developers and

FINANCIAL INFORMATION

government policies imposed in relation to property market. If the overall construction markets experienced a slump, our business, financial condition and results of operation, profitability and future growth in revenue may be adversely affected.

Successful tender

We generated the majority of our revenue from supply and installation service for our continuing operations, which accounted for 97.8%, 95.9% and 97.8% of our revenue from continuing operations for FY2015, FY2016 and FY2017, respectively. Our supply and installation services are provided on contract basis and non-recurring in nature. We secure these contracts through competitive tendering process. While some developers may invite us for tender, whether we can successfully secure any tender still depends on our bid. Our future growth and success will then depend on our ability to continue securing contracts. During the Track Record Period, our success rate were 27.6%, 17.6% and 20.0% for FY2015, FY2016 and FY2017, respectively. Our results of operations will be adversely affected if we are unable to secure sufficient number and sizeable contracts in the future.

Pricing and cost estimation of our projects

During the Track Record Period, majority of our supply and installation service projects were obtained by means of tender. The tender price of our construction projects is based on our estimated project costs plus a mark-up margin. However, the actual amount of time and costs involved in completing a project may vary and be affected by many factors, amongst other things, receipt of variation orders from our customers, supplies of staff and subcontractors and their performance and other unforeseen circumstances. Any material difference between budgeted costs involved in a project and the actual costs incurred may adversely affect our profit margin and results of operation.

Working capital requirements associated with undertaking contract works

Our contract works usually require significant working capital to finance preliminary works as well as purchase of raw materials in early stage of a project. For each contract work we undertake, we generally pay a considerable sum for purchase of raw material, site visit to stone quarry, fabrication expenses, insurance for our contract work and other costs involved to ensure the quality of the raw materials. Our customers do not usually pay any upfront payment or deposits and we normally receive progress payment until our works are certified by our customer or its authorised persons in later stage, and as such, our working capital is mostly tied up at the early stage or during commencement stage of contract works. Furthermore, our customers are generally entitled to withhold certain portion of the progress payments to us as retention money until the completion of the project and/or expiry the defect liability period, which also has an impact on our liquidity. As such, the availability of sufficient financial resources has been and will continue to affect our ability to undertake projects and thus our growth and development.

Access to and cost of financing

During the Track Record Period, our operation is heavily financed by bank and other borrowings and amounts due to related parties. As at 31 December 2015, 2016 and 2017, our total indebtedness amounted to HK\$124.4 million, HK\$113.4 million and HK\$104.2 million, respectively and our gearing ratio were 6,202.7%, 205.7% and 278.5%, respectively.

FINANCIAL INFORMATION

Our borrowings carried variable interest rate. Our total borrowing costs amounted to HK\$4.9 million, HK\$4.3 million and HK\$4.7 million for FY2015, FY2016 and FY2017, respectively. Any material changes in interest rate may affect our cost of financing and, thus, our results of operations.

Cost of sales

Our cost of raw materials, fabrication expenses and transportation and subcontracting are the major components of our cost of sales during the Track Record Period.

The price and availability of different raw materials may vary from period to period due to factors such as customer specification, demand and market conditions. Our cost of raw material, fabrication and transportation accounted for 31.9%, 45.8% and 39.6% of our total cost of sales in FY2015, FY2016 and FY2017, respectively.

Also, our installation costs is a major component of our costs structure and any unexpected changes to it may affect our profitability. In FY2015, FY2016 and FY2017, installation cost accounted for 59.2%, 39.6% and 50.2% of our total cost of sales, respectively. Thus, our profitability and result of operation is also susceptible to changes in installation cost.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of raw materials, fabrication expenses and transportation and installation cost from our cost of sales on our profit before tax during the Track Record Period. Fluctuations in our cost of raw materials, fabrication and transportation and installation costs are assumed to be 5%, 10% and 15%.

Changes in costs of raw materials, fabrication expenses and transportation			
Hypothetical fluctuations	<i>+/-5%</i>	<i>+/-10%</i>	<i>+/-15%</i>
Increase/decrease in profit before tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2015	-/+2,233	-/+4,466	-/+6,699
FY2016	-/+3,629	-/+7,258	-/+10,887
FY2017	-/+3,207	-/+6,414	-/+9,621
Changes in installation costs			
Hypothetical fluctuations	<i>+/-5%</i>	<i>+/-10%</i>	<i>+/-15%</i>
Increase/decrease in profit before tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2015	-/+4,136	-/+8,272	-/+12,408
FY2016	-/+3,134	-/+6,268	-/+9,402
FY2017	-/+4,065	-/+8,130	-/+12,194

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as the actual effect of such hypothetical fluctuations.

FINANCIAL INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Our significant accounting policies, which are important for an understanding of our financial condition and result of operations, are set forth in detail in Note 2 to the Accountant's Report in Appendix I to this prospectus. Our other critical accounting estimates and judgments that were used in the preparation of our combined financial statements are set forth in Note 4 to the Accountant's Report in Appendix I to this Prospectus.

RESULTS OF OPERATIONS

The following table summarises the combined statement of comprehensive income of our Group during the Track Record Period, details of which are set out in the Accountant's Report in Appendix I to this Prospectus.

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	<i>% to revenue</i>	<i>HK\$'000</i>	<i>% to revenue</i>	<i>HK\$'000</i>	<i>% to revenue</i>
Continuing operations						
Revenue	213,303	100.0	222,141	100.0	224,793	100.0
Cost of sales	<u>(139,910)</u>	<u>65.6</u>	<u>(158,243)</u>	<u>71.2</u>	<u>(161,826)</u>	<u>72.0</u>
Gross profit	73,393	34.4	63,898	28.8	62,967	28.0
Other income and other gains, net	52	0.0	100	0.0	87	0.0
Administrative expenses	<u>(14,816)</u>	<u>6.9</u>	<u>(24,406)</u>	<u>11.0</u>	<u>(25,830)</u>	<u>11.5</u>
Operating profit	58,629	27.5	39,592	17.8	37,224	16.5
Finance income	187	0.1	190	0.1	215	0.1
Finance costs	<u>(4,902)</u>	<u>2.3</u>	<u>(4,281)</u>	<u>1.9</u>	<u>(4,736)</u>	<u>2.1</u>
Profit before income tax	53,914	25.3	35,501	16.0	32,703	14.5
Income tax expense	<u>(9,728)</u>	<u>4.6</u>	<u>(8,130)</u>	<u>3.7</u>	<u>(7,429)</u>	<u>3.3</u>
Profit for the year from continuing operations	44,186	20.7	27,371	12.3	25,274	11.2
Discontinued operations						
Loss for the year from discontinued operations	<u>(404)</u>	<u>0.2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit for the year	<u><u>43,782</u></u>	<u><u>20.5</u></u>	<u><u>27,371</u></u>	<u><u>12.3</u></u>	<u><u>25,274</u></u>	<u><u>11.2</u></u>

FINANCIAL INFORMATION

DESCRIPTION OF SELECTED ITEMS IN COMBINED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue from continuing operations comprises revenue from (i) supply of marble and granite and the related installation services; and (ii) sale of stone. We use the “percentage-of completion” method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. Our revenue from stone sales is recognised when the goods are delivered and the title has passed to our customers.

Our revenue generated from our continuing operations was HK\$213.3 million, HK\$222.1 million and HK\$224.8 million for FY2015, FY2016 and FY2017, respectively. Our revenue from discontinued operations represented trading of marbles in the PRC and had ceased operations since 1 July 2015. The revenue generated from our discontinued operations was HK\$22.8 million, nil and nil for FY2015, FY2016 and FY2017, respectively.

The following table sets forth, for the periods indicated, the breakdown of our revenue by type of transactions and operating segment:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Continuing operations						
— Hong Kong						
Supply and installation services	208,668	88.4	213,021	95.9	219,861	97.8
Stone sales	<u>4,635</u>	<u>1.9</u>	<u>9,120</u>	<u>4.1</u>	<u>4,932</u>	<u>2.2</u>
Total for continuing operations						
— Hong Kong	213,303	90.3	222,141	100.0	224,793	100.0
Discontinued operations — PRC	<u>22,801</u>	<u>9.7</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u><u>236,104</u></u>	<u><u>100.0</u></u>	<u><u>222,141</u></u>	<u><u>100.0</u></u>	<u><u>224,793</u></u>	<u><u>100.0</u></u>

Please also refer to the section headed “Business — Our projects” in this Prospectus for details of our contracts including revenue contribution from each contract undertaken during the Track Record Period.

We have identified two operating segments from a geographical perspective, namely, (i) supply and installation services of marble products and stone sales in Hong Kong; and (ii) trading of marble products in the PRC during the Track Record Period. Since we terminated our trading of marble

FINANCIAL INFORMATION

products in the PRC with effect from 1 July 2015, such operating segment was accounted for as our discontinued operations and no revenue had been generated from the operating segment since 1 July 2015.

Continuing Operations

Cost of sales

Our cost of sales comprises mainly cost of supply and installation services and cost of stone sales. Our cost of sales amounted to HK\$139.9 million, HK\$158.2 million and HK\$161.8 million for FY2015, FY2016 and FY2017, respectively.

The following table sets forth, for the periods indicated, a breakdown of our cost of sales by type of transactions and by nature:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Supply and installation services:						
Raw materials	26,279	18.8	71,909	45.4	64,081	39.6
Fabrication expenses	13,694	9.8	343	0.2	—	—
Installation costs	82,720	59.2	62,680	39.6	81,295	50.2
Transportation	4,686	3.3	328	0.2	56	0.0
Staff costs	2,764	2.0	5,416	3.4	6,485	4.0
Drawing	1,499	1.1	9,617	6.1	698	0.4
Others	<u>5,063</u>	<u>3.5</u>	<u>2,599</u>	<u>1.7</u>	<u>6,050</u>	<u>3.8</u>
Sub-total	<u>136,705</u>	<u>97.7</u>	<u>152,892</u>	<u>96.6</u>	<u>158,665</u>	<u>98.0</u>
Stone sales	<u>3,205</u>	<u>2.3</u>	<u>5,351</u>	<u>3.4</u>	<u>3,161</u>	<u>2.0</u>
Total	<u><u>139,910</u></u>	<u><u>100.0</u></u>	<u><u>158,243</u></u>	<u><u>100.0</u></u>	<u><u>161,826</u></u>	<u><u>100.0</u></u>

Installation costs, being a major component of our cost of sales, represents fees and charges paid or payable to our subcontractors who provide marble installation services at site as well as the cost of ancillary accessories.

Raw materials is another main component of our cost of sales, which represents cost of raw materials, including stone blocks, slabs and cut-to-size panels, for our supply and installation projects. To transfer the risk of wastage of materials in addition to the budgeted range during fabrication, since 2016, we started to directly purchase cut-to-size panels (i.e. block or slabs that are fabricated or cut and processed to specified size for installation) instead of blocks or slabs from our suppliers.

Please refer to section headed “Business — Our business model — Operating procedures — Selection of stones and fabrications” in this Prospectus for further details.

FINANCIAL INFORMATION

Fabrication expenses are incurred for engaging fabrication contractors to cut and process stone blocks into specified size, representing 9.8%, 0.2% and nil of our total cost of sales for FY2015, FY2016 and FY2017. The decrease in our fabrication expenses in FY2016 was because we started to purchase cut-to-size panels since FY2016 as mentioned in the paragraph above.

Transportation mainly represents expenses incurred for transporting stone panels to the designated construction site. Since 2016, we started to purchase cut-to-size panels whereby our suppliers are responsible to deliver the cut-to-size panels directly to the designated construction site, and as such, our cost of transportation decreased significantly in FY2016.

Our composition of major components of cost of sales, mainly raw materials and installation costs, in each year is subject to factors, among others, the type and source of raw materials procured, the stage of project and major working procedures performed in each period.

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by type of transactions for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>Gross profit margin</i> HK\$'000	<i>%</i>	<i>Gross profit margin</i> HK\$'000	<i>%</i>	<i>Gross profit margin</i> HK\$'000	<i>%</i>
Supply and installation services	71,963	34.5	60,129	28.2	61,196	27.8
Stone sales	<u>1,430</u>	<u>30.9</u>	<u>3,769</u>	<u>41.3</u>	<u>1,771</u>	<u>35.9</u>
	<u><u>73,393</u></u>	<u><u>34.4</u></u>	<u><u>63,898</u></u>	<u><u>28.8</u></u>	<u><u>62,967</u></u>	<u><u>28.0</u></u>

Our gross profits from supply and installation services accounted for majority of our gross profit for the respective year. Our gross profit margin of our supply and installation service is a combined result of gross profit margin of individual contracts undertaken, which is in turn affected by factors, including but not limited to tender price, scope and complexity of work, schedule and length of project and variation orders, that vary from project to project.

Our relatively higher gross profit margin in FY2015 was mainly due to our substantial work performed during the period for a luxurious residential project at the Peak that entails relatively higher gross profit margin attributable to the particular requirements on marble stone used.

Other income and other gains — net

Other income and other gains — net, mainly represents exchange gains and sundry income, amounted to HK\$52,000, HK\$100,000 and HK\$87,000 for FY2015, FY2016 and FY2017, respectively.

FINANCIAL INFORMATION

Administrative expenses

Administrative expenses primarily comprise employee benefits expenses including directors' emoluments, operating lease expenses for our office, listing expenses, legal and professional fees (including auditor's remuneration) and other administrative expenses.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Employee benefit expenses	6,108	41.2	8,268	33.9	10,588	41.0
Operating lease expenses	3,185	21.5	2,834	11.6	2,646	10.2
Listing expenses	1,236	8.3	9,846	40.3	8,974	34.7
Legal and professional fees	767	5.2	281	1.2	322	1.2
Motor vehicle expenses	763	5.1	847	3.5	843	3.3
Depreciation	427	2.9	453	1.9	413	1.6
Others	2,330	15.8	1,877	7.6	2,044	8.0
	<u>14,816</u>	<u>100.0</u>	<u>24,406</u>	<u>100.0</u>	<u>25,830</u>	<u>100.0</u>
Total	<u>14,816</u>	<u>100.0</u>	<u>24,406</u>	<u>100.0</u>	<u>25,830</u>	<u>100.0</u>

Finance income

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Interest from:						
Bank deposits	14	7.5	21	11.1	44	20.5
Mr. Lui in respect of a bank borrowing arrangement	173	92.5	169	88.9	171	79.5
	<u>187</u>	<u>100.0</u>	<u>190</u>	<u>100.0</u>	<u>215</u>	<u>100.0</u>
Total	<u>187</u>	<u>100.0</u>	<u>190</u>	<u>100.0</u>	<u>215</u>	<u>100.0</u>

Finance income mainly comprises interest income from Mr. Lui which represents the recharge of interest expenses in respect of a property mortgage loan entered by our Group on behalf of Mr. Lui. The interest rate of the secured bank loan was stated at 1% per annum over HIBOR, and it was arranged such that the interest expense in connection with the secured bank loan was recharged in full from Mr. Lui during the Track Record Period. Such arrangement was terminated during FY2017.

FINANCIAL INFORMATION

Finance costs

	Year ended 31 December								
	2015			2016			2017		
	Effective interest rate charged %	Finance costs HK\$'000	%	Effective interest rate charged %	Finance costs HK\$'000	%	Effective interest rate charged %	Finance costs HK\$'000	%
Bank overdraft	4.6	432	8.8	5.3	551	12.9	5.2	930	19.6
Trust receipt loans	3.4	2,186	44.6	4.1	2,570	60.0	3.6	2,562	54.1
Bank loans	2.7	1,363	27.8	2.8	1,130	26.4	3.9	1,206	25.5
Finance lease	4.4	22	0.5	3.9	30	0.7	4.0	38	0.8
Other borrowings	2.2	899	18.3	N/A	—	—	N/A	—	—
		<u>4,902</u>	<u>100.0</u>		<u>4,281</u>	<u>100.0</u>		<u>4,736</u>	<u>100.0</u>

Finance costs comprise mainly of interest charges on our bank overdraft, trust receipt loans, bank loans, finance leases and other borrowings. Our interest on other borrowings represent finance costs incurred in connection with the advances from a related party and borrowings from a third party financier. We ceased to make such borrowings from the related party and third party financier in 2015. For details of the borrowings from financier, please refer to the paragraph headed “Indebtedness — Other borrowings” in this section.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) *Cayman Islands and BVI profits tax*

Our Group has not been subject to any taxation in the Cayman Islands and BVI.

(ii) *Hong Kong profits tax*

Our Group was subject to Hong Kong profits tax at the rate of 16.5%, on the estimated assessable profit during the Track Record Period.

Our income tax expense was HK\$9.7 million, HK\$8.1 million and HK\$7.4 million for FY2015, FY2016 and FY2017, respectively, and the effective tax rate for the same periods was 18.0%, 22.9% and 22.7%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

FINANCIAL INFORMATION

Discontinued Operations

Loss from discontinued operations

Loss from discontinued operations represented our loss generated from our marble trading business in the PRC. On 31 December 2014, the Board of Director approved to terminate the marble trading business in the PRC with effect from 1 July 2015. Therefore, our marble trading business in the PRC carried out during the Track Record Period has been reclassified as discontinued operations to provide a more appropriate presentation. The reclassification has no impact on our Group's overall results. For FY2015, FY2016 and FY2017, our loss from discontinued operations was HK\$0.4 million, nil and nil, respectively.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

FY2017 compared to FY2016

Revenue

Our revenue from continuing operations increased by HK\$2.7 million or 1.2% from HK\$222.1 million for FY2016 to HK\$224.8 million for FY2017 was a combined result of our increase in revenue from supply and installation services by HK\$6.9 million and decrease in revenue from stone sales by HK\$4.2 million.

Our revenue from supply and installation services increased by HK\$6.9 million or 3.2% from HK\$213.0 million for FY2016 to HK\$219.9 million for FY2017 was due to increase in revenue of HK\$132.3 million attributable to work commenced for nine new projects in FY2017 and HK\$28.5 million increase in revenue mainly due to a residential project on Barker Road; and such increase was partially offset by (i) decrease in revenue of HK\$50.0 million due to the completion of three projects, including a luxurious residential project on Mount Nicholson Road at the Peak and a residential project in Shatin; and (ii) decrease in revenue of HK\$103.9 million because 11 projects had achieved comparatively greater progress of work in FY2016 than in FY2017.

Our revenue from stone sale decreased from HK\$9.1 million for FY2016 to HK\$4.9 million for FY2017 mainly due to decrease in revenue of HK\$6.5 million attributable to a commercial property project in Tsim Sha Tsui as most of the stone products under the relevant contract has been delivered in FY2016.

Cost of sales

Cost of sales increased by HK\$3.6 million or 2.3% from HK\$158.2 million for FY2016 to HK\$161.8 million for FY2017. Such increase was due to increase in cost of sales for supply and installation services by HK\$5.8 million; and decrease in material cost for our stone sales by HK\$2.2 million.

Our cost of sales for supply and installation services increased by HK\$5.8 million or 3.8% from HK\$152.9 million for FY2016 to HK\$158.7 million for FY2017 was in line with our increase in revenue by 3.2%.

FINANCIAL INFORMATION

Our cost for stone sales decreased by HK\$2.2 million from HK\$5.4 million for FY2016 to HK\$3.2 million for FY2017 attributable to the aforementioned stone sales to a commercial property project in Tsimshatsui.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit slightly decreased by HK\$0.9 million or 1.5% from HK\$63.9 million for FY2016 to HK\$63.0 million for FY2017. Our gross profit margin remained relatively stable at 28.8% and 28.0% for FY2016 and FY2017, respectively.

Other income and gains

Other income and gains decreased by HK\$13,000 from HK\$100,000 for FY2016 to HK\$87,000 for FY2017.

Administrative expenses

Administrative expenses increased by HK\$1.4 million or 5.8% from HK\$24.4 million for FY2016 to HK\$25.8 million for FY2017. The increase was primarily due to increase in employee benefits expenses of HK\$2.3 million due to increase in (i) Directors' remuneration; and (ii) average number of staff and their general salary level and partially offset by decrease in listing expenses of HK\$0.9 million.

Finance income

Our finance income increased by HK\$25,000 or 13.2% from HK\$190,000 for FY2016 to HK\$215,000 for FY2017 was mainly due to an increase in interest income from bank deposits.

Finance costs

Finance costs increased by HK\$0.4 million or 10.6% from HK\$4.3 million for FY2016 to HK\$4.7 million for FY2017 mainly due to increase in average balances of bank overdraft during FY2017.

Income tax expense

Income tax expense decreased by HK\$0.7 million or 8.6% from HK\$8.1 million for FY2016 to HK\$7.4 million for FY2017. The decrease was mainly due to decrease in our profit before income tax and thus our tax assessable profit. Our effective tax rate remained relatively stable at 22.9% and 22.7% for FY2016 and FY2017, respectively.

Profit for the year

As a result of the foregoing, profit for the year from our continuing operations decreased by HK\$2.1 million or 7.7% from HK\$27.4 million for FY2016 to HK\$25.3 million for FY2017. Our net profit margin from continuing operations decreased from 12.3% for FY2016 to 11.2% for FY2017 mainly as a result of the decrease in gross profit margin for FY2017. Our net profit margin from continuing operations excluding listing expenses for FY2016 and FY2017 was 16.8% and 15.2%, respectively.

FINANCIAL INFORMATION

FY2016 compared to FY2015

Revenue

Our revenue from continuing operations increased by HK\$8.8 million or 4.1% from HK\$213.3 million for FY2015 to HK\$222.1 million for FY2016 was a result of our increase in revenue from supply and installation services of HK\$4.3 million and increase in revenue from stone sales of HK\$4.5 million.

Our revenue from supply and installation services increased by HK\$4.3 million or 2.0% from HK\$208.7 million for FY2015 to HK\$213.0 million for FY2016 mainly due to the increase in revenue of HK\$201.3 million attributable to work commenced for nine new projects during FY2016 which was partially offset by the decrease in revenue from five projects which were completed or already achieved significant progress of work in FY2015, including a luxurious residential project on Mount Nicholson Road at the Peak.

Our revenue from stone sale increased by HK\$4.5 million from HK\$4.6 million for FY2015 to HK\$9.1 million for FY2016 mainly attributable to our marble sales to a commercial property project in Tsimshatsui during FY2016.

Cost of sales

Cost of sales increased by HK\$18.3 million or 13.1% from HK\$139.9 million for FY2015 to HK\$158.2 million for FY2016. Such increase was due to the increase in cost of sales from our supply and installation services of HK\$16.2 million; and the increase in material cost for our stone sales of HK\$2.1 million.

Our cost of sales from our supply and installation services increased by HK\$16.2 million or 11.9% from HK\$136.7 million for FY2015 to HK\$152.9 million for FY2016 mainly due to the net increase in cost of raw materials (taking into account of costs of raw material and relevant fabrication and transportation) by HK\$27.9 million in FY2016 mainly as a result of nine new projects which commenced work during FY2016; and partially offset by the HK\$20.0 million decrease in installation cost from HK\$82.7 million in FY2015 to HK\$62.7 million in FY2016 mainly because substantial installation works for two residential projects at the Peak and in Taipo and one commercial project in Chek Lap Kok had been completed in FY2015.

Our cost for stone sales increased by HK\$2.1 million from HK\$3.2 million for FY2015 to HK\$5.4 million for FY2016 mainly attributable to the aforesaid commercial property project in Tsimshatsui.

Gross profit and gross profit margin

Our gross profit decreased by HK\$9.5 million or 12.9% from HK\$73.4 million for FY2015 to HK\$63.9 million for FY2016 and our gross profit margin decreased from 34.4% for FY2015 to 28.8% for FY2016 were mainly due to our substantial of work performed during FY2015 for a sizeable and luxurious residential project at the Peak that entails relatively higher gross profit margin attributable to the particular requirements on marble stone used. Such project accounted for a significant portion of our revenue in FY2015 and was completed in FY2016.

FINANCIAL INFORMATION

Other income and gains

Other income and gains increased by HK\$48,000 or 92.3% from HK\$52,000 for FY2015 to HK\$100,000 for FY2016.

Administrative expenses

Administrative expenses increased by HK\$9.6 million or 64.9% from HK\$14.8 million for FY2015 to HK\$24.4 million for FY2016. The increase was primarily due to (i) increase in listing expenses of HK\$8.6 million; and (ii) increase in employee benefits expenses of HK\$2.2 million as a result of the increases in number of staff.

Finance income

Our finance income remained relatively stable at HK\$187,000 and HK\$190,000 for FY2015 and FY2016, respectively.

Finance costs

Our finance costs decreased by HK\$0.6 million or 12.2% from HK\$4.9 million for FY2015 to HK\$4.3 million for FY2016 was mainly because we ceased to make borrowings from a third party financier and a related party in 2015.

Income tax expense

Income tax expense decreased by HK\$1.6 million or 16.5% from HK\$9.7 million for FY2015 to HK\$8.1 million for FY2016. The decrease was mainly due to decrease in our profit before income tax and thus our assessable profit. Our effective income tax rate increased from 18.0% for FY2015 to 22.9% for FY2016 mainly due to the increase in listing expenses of HK\$8.6 million which is non-deductible for tax purpose.

Profit for the year

As a result of the foregoing, profit for the year from our continuing operations decreased by HK\$16.8 million or 38.0% from HK\$44.2 million for FY2015 to HK\$27.4 million for FY2016. Our net profit margin from continuing operations decreased from 20.7% for FY2015 to 12.3% for FY2016 mainly as a result of (i) increase in listing expenses of HK\$8.6 million; and (ii) decrease in gross profit margin abovementioned. Our net profit margin from continuing operations excluding listing expenses for FY2015 and FY2016 was 21.3% and 16.8%, respectively.

Loss for the year from discontinued operations

Loss for the year from our discontinued operations decreased from HK\$0.4 million for FY2015 to nil for FY2016 as the sales of marble and granite in the PRC was ceased with effect from 1 July 2015 as discussed in the paragraph headed “Discontinued Operations” in this section.

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our operations are capital intensive and our working capital level and requirements are subject largely to stages of works of each project of our Group is undertaking. While significant working capital is usually required in early stage of a project to purchase raw materials, cash and bank balances significant increases when major progress payments are received from customers according to the payment milestones as specified in the relevant contracts. During the Track Record Period, we financed our operations principally through a combination of cash generated from our operations, bank and other borrowings, finance leases and advance from related parties. In addition, we financed our operations during the Track Record Period with bank overdrafts in order to benefit from the flexibility from utilising bank overdrafts when required. Following the completion of the Share Offer, we expect that our capital expenditure and working capital requirement in the future to be financed principally through cash generated from our operations, bank borrowings, finance leases and net proceeds from the Share Offer. Our Directors believe that in the long term, our Group's operations will be principally funded by cash generated from our operations and, if necessary, additional equity financing or bank borrowings.

The following table summarises, for the periods indicated, our statements of cash flows:

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities	59,260	40,034	38,317
Changes in working capital	39,491	(70,829)	(739)
Interest received	187	190	215
Income tax paid	<u>(5,147)</u>	<u>(16,139)</u>	<u>(10,415)</u>
 Net cash generated from/(used in) operating activities	 93,791	 (46,744)	 27,378
 Net cash (used in)/generated from investing activities	 (57,783)	 139,573	 (26,302)
 Net cash (used in)/generated from financing activities	 <u>(41,690)</u>	 <u>(101,847)</u>	 <u>9,854</u>
 Net (decrease)/increase in cash and cash equivalents	 (5,682)	 (9,018)	 10,930
Cash and cash equivalents at beginning of year	<u>(3,646)</u>	<u>(9,328)</u>	<u>(18,346)</u>
 Cash and cash equivalents at end of year	 <u><u>(9,328)</u></u>	 <u><u>(18,346)</u></u>	 <u><u>(7,416)</u></u>
 Analysis of the balances of cash and cash equivalents:			
Cash and bank balances	723	350	503
Bank overdrafts	<u>(10,051)</u>	<u>(18,696)</u>	<u>(7,919)</u>
	<u><u>(9,328)</u></u>	<u><u>(18,346)</u></u>	<u><u>(7,416)</u></u>

FINANCIAL INFORMATION

We had cash and bank balances of HK\$0.7 million, HK\$0.4 million and HK\$0.5 million as at 31 December 2015, 2016 and 2017, respectively. We utilised our bank overdraft facilities during the Track Record Period and, for the purpose of the combined cash flows statement pursuant to the relevant accounting standards, our bank overdrafts are presented as an integral part of our cash and cash equivalents as at the respective period end. Accordingly, we recorded in our combined cash flow statements bank overdrafts in excess of cash and bank balances of HK\$9.3 million, HK\$18.3 million and HK\$7.4 million as at 31 December 2015, 2016 and 2017, respectively. For details of our bank overdrafts, please refer to the paragraph headed “Indebtedness” in this section.

Operating activities

During our Track Record Period, our cash inflow from operating activities was principally from the receipt of payments from our customers for our contract work. Our cash outflow used in operating activities principally comprise purchases of raw materials, fabrication expenses, installation costs and other operating expenses.

For FY2017, our Group had net cash generated from operating activities of HK\$27.4 million, mainly as a result of the cash generated from operations before working capital change of HK\$38.3 million, interest received of HK\$0.2 million, income tax paid of HK\$10.4 million and change in working capital of HK\$0.7 million. The change in working capital primarily reflected (i) increase in trade and retention receivables of HK\$14.7 million mainly attributable to Customer I; (ii) decrease in trade and retention payables of HK\$14.6 million due to settlement; and (iii) increase in deposits, prepayments and other receivables of HK\$12.6 million mainly due to trade deposit paid to a supplier in connection with a residential project in Tseung Kwan O. The outflow was partially offset by net decrease in amounts due from customers for contract work of HK\$42.4 million.

For FY2016, our Group had net cash used in operating activities of HK\$46.7 million, mainly as a result of the cash generated from operations before working capital change of HK\$40.0 million, interest received of HK\$0.2 million, income tax paid of HK\$16.1 million and change in working capital of HK\$70.8 million. The change in working capital primarily reflected (i) increase in trade and retention receivables of HK\$55.8 million mainly attributable to the increase in trade receivables from Customer A, Hip Hing Construction Company Limited and Customer F; and (ii) net increase in amounts due from customers for contract work of HK\$43.1 million mainly in relation to the nine new projects which commenced work in FY2016. The outflow was partially offset by increase in trade and retention payables of HK\$15.3 million in association with the aforementioned nine new projects.

For FY2015, our Group had net cash generated from operating activities of HK\$93.8 million, mainly as a result of the cash generated from operations before working capital change of HK\$59.3 million, interest received of HK\$0.2 million, income tax paid of HK\$5.1 million and change in working capital of HK\$39.5 million. The change in working capital primarily reflected (i) decrease in trade and retention receivables of HK\$51.4 million mainly attributable to decrease in trade and retention receivables from Customer B; and (ii) decrease in inventories of HK\$14.2 million due to the cessation of our operation in trading of marbles in the PRC in FY2015. The inflow was partially offset by net increase in amounts due from customers for contract work of HK\$37.0 million in relation to a luxurious residential project on Mount Nicholson Road at the Peak.

FINANCIAL INFORMATION

Investing activities

During the Track Record Period, our cash inflow from investing activities was principally proceeds from disposal of property and equipment, repayment from related parties and decrease in pledged bank deposits. Our cash used in investing activities mainly comprised purchase of property and equipment, cash advanced to related parties and increase in pledged bank deposits. Our cash advanced to related parties during the Track Record Period was non-trade in nature and mainly represented (i) cash payments made to Mr. Lui for his private use; and (ii) cash advanced or lent to related companies owned by Mr. Lui for operating use by such related parties prior to the Reorganisation.

For FY2017, our Group had net cash used in investing activities of HK\$26.3 million primarily attributable to cash advance to related parties of HK\$79.6 million partially offset by cash repayment from them of HK\$61.4 million.

For FY2016, our Group had net cash generated from investing activities of HK\$139.6 million primarily attributable to repayment from related parties of HK\$173.6 million which was partially offset by cash advanced to our related parties of HK\$32.8 million.

For FY2015, our Group had net cash used in investing activities of HK\$57.8 million primarily attributable to cash advanced to our related parties of HK\$129.0 million which was partially offset by repayment from related parties of HK\$63.2 million.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally from proceeds from borrowings. Our cash used in financing activities mainly comprised the repayment of borrowings, repayment to related parties and payment of listing expenses to be capitalised into equity.

For FY2017, our Group had net cash generated from financing activities of HK\$9.9 million primarily attributable to proceeds from borrowings of HK\$160.0 million, partially offset by (i) repayments of borrowings of HK\$142.4 million; and (ii) interest paid of HK\$4.7 million.

For FY2016, our Group had net cash used in financing activities of HK\$101.8 million primarily attributable to repayment of borrowings of HK\$204.0 million and dividend paid of HK\$75.0 million and was partially offset by proceeds from borrowings of HK\$183.6 million.

For FY2015, our Group had net cash used in financing activities of HK\$41.7 million primarily attributable to repayment of borrowings of HK\$275.9 million and repayment to related parties of HK\$72.5 million and was partially offset by proceeds from borrowings of HK\$264.3 million and cash advance from related parties of HK\$48.6 million.

FINANCIAL INFORMATION

Net Current Assets

We recorded net current assets of HK\$1.8 million, HK\$54.8 million, HK\$37.1 million and HK\$40.2 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The table below sets out selected information of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Current assets				
Inventories	3,353	—	—	—
Trade and retention receivables	19,569	75,408	89,470	71,430
Deposits, prepayments and other receivables	4,530	5,462	20,761	15,041
Amounts due from customers for contract works	54,217	98,897	55,712	62,573
Amounts due from a related party	80,542	40,536	—	7,429
Tax receivables	—	—	—	85
Pledged bank deposits	11,012	11,028	19,080	19,111
Cash and bank balances	<u>723</u>	<u>350</u>	<u>503</u>	<u>425</u>
	<u>173,946</u>	<u>231,681</u>	<u>185,526</u>	<u>176,094</u>
Current liabilities				
Trade and retention payables	32,201	47,506	32,947	13,966
Accruals and other payables	3,475	10,992	9,784	9,305
Amounts due to customers for contract works	136	1,713	939	309
Amounts due to a related party	—	—	391	—
Obligations under finance leases — due within one year	144	299	260	224
Bank and other borrowings	123,994	112,203	102,886	112,049
Tax payables	<u>12,183</u>	<u>4,174</u>	<u>1,188</u>	<u>—</u>
	<u>172,133</u>	<u>176,887</u>	<u>148,395</u>	<u>135,853</u>
Net current assets	<u><u>1,813</u></u>	<u><u>54,794</u></u>	<u><u>37,131</u></u>	<u><u>40,241</u></u>

Our Group's net current assets increased significantly from HK\$1.8 million as at 31 December 2015 to HK\$54.8 million as at 31 December 2016. The increase was primarily due to (i) increase in trade and retention receivables of HK\$55.8 million mainly attributable to increase in trade and retention receivables from Customer A and Customer F; and (ii) increase in amounts due from customers for contract works of HK\$44.7 million. The increase was partially offset by decrease in amounts due from related parties of HK\$40.0 million.

FINANCIAL INFORMATION

Our Group's net current assets decreased to HK\$37.1 million as at 31 December 2017. The decrease was primarily due to (i) decrease in amounts due from customers for contract works of HK\$43.2 million; and (ii) decrease in amount due from a related party of HK\$40.5 million as a result of offsetting with the dividend paid in FY2017. The decrease in net current assets was partially offset by (i) increase in trade and retention receivables of HK\$14.1 million attributable to retention receivables of on-going projects as at 31 December 2017; (ii) decrease in trade and retention payables of HK\$14.6 million mainly due to early settlement of trade payables in respect of a residential project at the Peak; and (iii) decrease in current portion of bank borrowings of HK\$9.3 million.

Our Group's net current assets increased to HK\$40.2 million as at 30 April 2018. The increase was a combined result of (i) decrease in trade and retention receivables of HK\$18.0 million; (ii) increase in amounts due from customers for contract works of HK\$6.9 million; and (iii) decrease in trade and retention payables of HK\$19.0 million due to settlement of trade payables.

Working Capital

Our Directors are of the view, and the Sole Sponsor concurs, that our Group have sufficient working capital to finance our operations and our business strategies for at least the next 12 months commencing from the date of this prospectus having taken into consideration of (i) our cash and bank balance as at 31 December 2017; (ii) our total indebtedness as at 31 December 2017; (iii) our unutilised banking facilities as at 31 December 2017; (iv) expected cash inflow from partial repayment of the amount due from our Controlling Shareholder prior to the Listing; (v) cash flow projections up to the next 12 months commencing from the date of this Prospectus; and (vi) the estimated net proceeds from the Share Offer.

Our Directors also confirm that, we did not have any material defaults in payment of trade and non-trade payables and bank borrowings, or breaches of finance covenants during the Track Record Period.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future plans and proposed use of proceeds" in this prospectus.

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN ITEMS OF COMBINED BALANCE SHEETS

Inventories

Our inventories are raw materials that primarily consist of (i) marbles and granite as trading stock and (ii) blocks and slabs and cut-to-size panels for project use. The following table sets forth a breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Marble and granite	3,353	—	—

Our balance of inventories decreased from HK\$3.4 million as at 31 December 2015 to nil as at 31 December 2016 as we started to only purchase cut-to-size panels that would be delivered from our suppliers to the construction site directly in 2016. Thus, we did not hold any inventories as at 31 December 2016 and 2017.

We adopt stringent inventory control and endeavour to maintain low inventory levels required for our operations through effective inventory management. We also periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. Allowance is made against when the net realisable value of inventories falls below the cost or any of the inventories is identified as obsolete. We manage our inventory levels principally based on the anticipated demand. We did not have any provision for obsolete inventories as at 31 December 2015, 2016 and 2017, respectively.

The following table sets forth the turnover days of our inventories for the periods indicated.

	Year ended 31 December		
	2015	2016	2017
	Average inventory turnover days ⁽¹⁾	27	4

(1) Average inventory turnover days for FY2015, FY2016 and FY2017 is derived by dividing the arithmetic mean of the opening and closing balances of inventories of the relevant years by cost of sales incurred from continuing operation and multiplying by 365 days.

Our average inventory turnover days decreased from 27 days for FY2015 to 4 days for FY2016 mainly because in 2016, we started to only purchase cut-to-size panels which would be delivered from our suppliers to the construction site directly and we did not hold any inventories. Average inventory turnover days is not applicable to FY2017 as we had no inventories as at 31 December 2016 and 2017.

FINANCIAL INFORMATION

Trade and retention receivables

Our trade and retention receivables primarily consist of trade receivables due from customers for our goods sold or services performed and retention receivables withheld by customers to secure our Group's due performance of relevant contracts.

The following table sets forth our trade and retention receivables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables			
— Third parties	3,427	55,096	59,122
Retention receivables			
— Third parties	<u>16,142</u>	<u>20,312</u>	<u>31,028</u>
	19,569	75,408	90,150
Less: provision for impairment	<u>—</u>	<u>—</u>	<u>(680)</u>
	<u><u>19,569</u></u>	<u><u>75,408</u></u>	<u><u>89,470</u></u>

Trade receivables

Our trade receivables increased from HK\$3.4 million as at 31 December 2015 to HK\$55.1 million and HK\$59.1 million as at 31 December 2016 and 2017, respectively, due to the increase in number of projects and the increase in amount of payment applications approved during the corresponding years.

Our Group's trading terms with our customers are mainly on credit. Our Group applies an internal credit assessment policy to assess credit quality and define credit limit by customer. The credit period agreed with our major customers is generally 30 to 90 days which is determined on a case-by-case basis and set out in respective contracts. Our Group maintains strict control over our outstanding receivables and overdue balances are reviewed regularly by senior management. We typically do not require any collateral as security.

Our policy for impairment on trade receivables is based on an evaluation of collectability and ageing analysis of the receivables that requires the use of judgement and estimates of our management. Impairment would be made on receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely reviews the trade receivables balances and any overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. After we have fully considered the nature of trade receivables and their collectability on a case-by-case basis, we would make provisions for the impairment of certain long overdue trade receivables in order to ensure the quality of our assets. For FY2015, FY2016 and FY2017, we recorded impairment on trade receivables of nil, nil and HK\$504,000, respectively.

FINANCIAL INFORMATION

As at 31 December 2015, 2016 and 2017, the ageing analysis of the third-party trade receivables, based on invoice date, is as follows:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	2,272	53,774	34,088
31–60 days	814	—	9,954
61–90 days	46	—	6,529
Over 90 days	295	1,322	8,551
	<u>3,427</u>	<u>55,096</u>	<u>59,122</u>

As at 31 December 2015, 2016 and 2017, trade receivables of HK\$0.4 million, HK\$1.3 million and HK\$8.0 million, respectively, were past due but not impaired. These related to customers for whom there is no significant financial difficulty and based on our experience, our Directors were of the view that no impairment allowance was necessary in respect of these overdue balances as there had not been significant change in credit quality of our customers and the balances were considered fully recoverable.

As at 31 May 2018, HK\$34.1 million or 57.6% of our trade receivables outstanding as at 31 December 2017 were settled.

The table below sets forth a summary of average turnover days of trade receivables from third parties as at the dates indicated:

	Year ended 31 December		
	2015	2016	2017
Average turnover days of trade receivables ⁽¹⁾	<u>44</u>	<u>48</u>	<u>93</u>

(1) Average turnover days of trade receivables for FY2015, FY2016 and FY2017 is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables of the relevant years by revenue from continuing operation and multiplying by 365 days.

Our average turnover days of trade receivables remained relatively stable at 44 days and 48 days for FY2015 and FY2016, respectively. Our average turnover days of trade receivables then increased to 93 days for FY2017 mainly because our customers of a major residential project at the Peak and several on-going projects had approved our payment applications and significant billings were made near the year end.

FINANCIAL INFORMATION

Retention receivables

Retention receivables represent certain percentage of the total contract sum, generally 5%, held up by our customers to secure our due performance of contracts. Retention money is normally 5% to 10% of each progress payment, subject to a maximum rate of 5% of the total contract value. Generally, the first half of the retention money is released upon the issue of certificate of practical completion of the project and the second half of the retention money is released upon the issue of certificate of completion of making good defects after the expiry of the defect liability period. Thus, the amount of retention receivables as at the end of the reporting period depends on the settlement of final accounts and defect liability period.

As at 31 December 2015, 2016 and 2017, our retention receivables amounted to HK\$16.1 million, HK\$20.3 million and HK\$31.0 million, respectively and will be settled in accordance with the terms of our respective contracts. As at 31 December 2017, our retention receivables to be recovered within 12 months amounted to HK\$7.9 million while the amounts to be recovered more than 12 months amounted to HK\$23.1 million. For FY2015, FY2016 and FY2017, after our management assessment, we recorded impairment on retention receivables of nil, nil and HK\$176,000, respectively. Since the remaining projects are either still in progress or under the defect liability period, our Directors are of the view that our retention receivables have no recoverability issues.

As at 31 May 2018, HK\$4.5 million or 14.4% of our retention receivables outstanding as at 31 December 2017 were settled.

Amounts due from/to customers for contract work

Our revenue is recognised based on stage of completion of the contracts. There is normally a timing difference between the completion of site work examined and approved by our customers, and thus, billings. When the contract costs we incurred plus recognised profits less recognised losses exceed the aggregated amount of progress billings we have issued to our customers, there will be amounts due from customers for contract work. Conversely, when the aggregated amount of our progress billings exceeds the contract costs we incurred plus recognised profits less recognised losses, there will be amounts due to customers for contract works.

FINANCIAL INFORMATION

The following table sets forth our amounts due from/to customers for contract work as at the dates indicated.

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from customers for contract work			
Contract costs incurred plus recognised profits less recognised losses	424,438	572,122	600,815
Less: Progress billings	<u>(370,221)</u>	<u>(473,225)</u>	<u>(545,103)</u>
	<u>54,217</u>	<u>98,897</u>	<u>55,712</u>
Amount due to customers for contract work			
Progress billings	75,535	20,716	22,469
Less: Contract costs incurred plus recognised profits less recognised losses	<u>(75,399)</u>	<u>(19,003)</u>	<u>(21,530)</u>
	<u>136</u>	<u>1,713</u>	<u>939</u>
Net amount due from customers for contract works	<u>54,081</u>	<u>97,184</u>	<u>54,773</u>

Our amounts due from/to customers for contract work are generally affected by number of projects in progress, the value of work done, and timing of issuing progress billings. Therefore, our Directors consider that it is common within this industry for these balances to vary from time to time.

Amount due from customers for contract work

Amounts due from customers for contract work increased from HK\$54.2 million as at 31 December 2015 to HK\$98.9 million as at 31 December 2016 mainly due to amounts due from customers for contract works of HK\$71.4 million in total in relation to works we performed for eight of the new projects commenced work during FY2016; and partially offset by the decrease in amounts due from customer for contract works in aggregated by HK\$23.5 million in respect of a luxurious residential project on Mount Nicholson Road at the Peak, a commercial project in Chek Lap Kok and a residential property project in Pak Shek Kok that our relevant works performed were certified by the customers and substantial billings were made to our customers during FY2016. The amount then decreased to HK\$55.7 million as at 31 December 2017 mainly due to our customers of a major residential project at the Peak and several on-going projects had certified our works and substantial billings were made to our customers during FY2017.

As at 31 December 2017, our amount due from customers for contract work of HK\$55.7 million mainly comprised (i) amount due from customers for contract works in aggregate of HK\$40.8 million in respect of our work performed for 12 projects during FY2016 and FY2017 which our Directors estimate that the relevant works would be substantially certified by our customers for billings; and (ii) amounts

FINANCIAL INFORMATION

due from customers for contract works of HK\$14.9 million are mainly related to variation works we performed in FY2015 and FY2016 for a luxurious residential project on Mount Nicholson Road at the Peak. Generally, variation works performed are approved by our customers upon preparation of final accounts of the projects and it normally takes 24 to 36 months for our customers to issue the final accounts after the completion of the project. Our Directors closely keep track of status of the preparation of final accounts of relevant projects by our customers. Our Directors estimate that the relevant variation works of such projects would be approved by our customers for billings when the final accounts are issued by the third quarter of 2018.

As at 31 May 2018, approximately HK\$26.2 million or 47.0% of our amounts due from customers for contract works as at 31 December 2017 have been subsequently certified by our customers for billings.

Based on the fact that (i) our Group has on-going business relationship with such customers; (ii) it is common that our customers take long periods of time to approve variation works and final accounts; (iii) we did not have any material dispute or disagreement with the customers; (iv) we are not aware of any deterioration of the relevant customers' creditability; and (v) certifications of progress had been carried out throughout the period, our Directors are of the view that no impairment is required on our amounts due from customers for contract work as at 31 December 2017.

Amount due to customers for contract work

Amounts due to customers for contract work increased from HK\$0.1 million as at 31 December 2015 to HK\$1.7 million as at 31 December 2016 mainly due to progress payment we received from a customer in respect of a residential property project in Tseung Kwan O where we were yet to incur costs as at 31 December 2016 for completion of our works. The amount then decreased to HK\$0.9 million as at 31 December 2017 mainly attributable to progress payments we received from customers in respect of two residential property projects in Tseung Kwan O and Shatin respectively where we were yet to incur costs as at 31 December 2017 for completion of our works.

Deposits, prepayment and other receivables

The following table sets forth the breakdown of our deposits, prepayment and other receivables as at the dates indicated.

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade deposits	13	34	4,988
Prepayments	3,747	4,840	14,586
Insurance compensation receivables	744	399	471
Other receivables	26	189	716
Total	4,530	5,462	20,761

FINANCIAL INFORMATION

Our deposits, prepayment and other receivables increased by HK\$1.0 million from HK\$4.5 million as at 31 December 2015 to HK\$5.5 million as at 31 December 2016 due to the increase in prepaid listing expenses. Our deposits, prepayment and other receivables further increased by HK\$15.3 million to HK\$20.8 million as at 31 December 2017 mainly due to (i) increase in prepayments of HK\$9.8 million in connection with prepayments for listing expenses and certain project related costs; and (ii) the trade deposit of HK\$5.0 million paid to a supplier for marble used in a residential project in Tseung Kwan O.

Pledged bank deposits

Pledged bank deposits represent cash held by our banks as security for our banking facilities.

Trade and retention payables

Our trade payables included payables to our suppliers and subcontractors.

The following table sets forth our trade and retention payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables			
— Third parties	27,410	40,288	23,217
Retention payables			
— Third parties	4,791	7,218	9,730
	32,201	47,506	32,947

Trade payables

Our trade payables increased by HK\$12.9 million from HK\$27.4 million as at 31 December 2015 to HK\$40.3 million as at 31 December 2016 which was attributable to the commencement of works including procurement of raw materials and performance of installation works by our subcontractors for nine projects during FY2016. The balance then decreased to HK\$23.2 million as at 31 December 2017 mainly due to our earlier settlement near the year end in respect of a residential project at the Peak.

FINANCIAL INFORMATION

Our suppliers generally offer us credit periods from 30 to 90 days. The table below sets forth, as at the end of the reporting periods indicated, the ageing analysis of our trade payables:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
1–30 days	14,654	16,535	5,188
31–60 days	1,362	9,854	2,291
61–90 days	2,099	1,904	4,051
Over 90 days	9,295	11,995	11,687
	27,410	40,288	23,217

The following table sets out the average trade payables turnover days for the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
Average turnover days of trade payables ⁽¹⁾	65	78	72

(1) Average turnover days of trade payables for the FY2014, FY2015, FY2016 and FY2017 is derived by dividing the arithmetic mean of the opening and closing balances of trade payables of the relevant years by cost of sales incurred from continuing operation and multiplying by 365 days.

Our average turnover days of trade payables increased from 65 days in FY2015 to 78 days in FY2016 due to the increase in trade payables of the new projects as discussed previously and our average turnover days remained relatively stable at 72 days for FY2017.

As at 31 May 2018, HK\$17.0 million or 73.4% of trade payables outstanding as at 31 December 2017 had been fully settled.

Retention payables

Retention payables were progress payments we withheld from our subcontractors with respect to their works performed. Our retentions payable were HK\$4.8 million, HK\$7.2 million and HK\$9.7 million as at 31 December 2015, 2016 and 2017, respectively. Retentions payable is recognised immediately after we deduct a portion of progress payment to the subcontractors from the payment of the first progress payment rather than at the time when the certificate of completion is issued. We generally hold up 5% of the contract sum of each project from our subcontractors. Part of the retention payables will be released to our subcontractors after the issue of the certificate of practical completion and the remaining portion will be released after the defect liability period. Thus, the amount of retention payables as at the end of the reporting period depends on the settlement of final accounts and defect liability period.

FINANCIAL INFORMATION

Accruals and other payables

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals for employee benefit expenses	701	1,892	2,459
Accruals for legal and professional fee	240	270	250
Accruals for listing expenses	1,260	6,157	4,709
Trade deposits received from stone sales customers	157	333	34
Other accruals and other payables	1,117	2,340	2,332
	3,475	10,992	9,784

Our accruals and other payables mainly represent trade deposits received from our stone sales customers, accruals for employee benefit expenses, legal and professional fees and listing expenses. Accruals and other payables increased from HK\$3.5 million as at 31 December 2015 to HK\$11.0 million as at 31 December 2016 and then decreased to HK\$9.8 million as at 31 December 2017, mainly due to the changes in accruals for listing expenses.

Amounts due from/to a related party

Our amounts due from/to a related party mainly arisen from the consideration in relation to the share transfer of Shanghai Hongjun, dividend payable to our Controlling Shareholder, advances from related parties and related party transactions between our Group and the related parties during the Track Record Period.

Our amounts due from a related party amounted to HK\$80.5 million, HK\$40.5 million and nil as at 31 December 2015, 2016 and 2017, respectively. Our amounts due to a related party amounted to nil, nil and HK\$0.4 million as at 31 December 2015, 2016 and 2017, respectively.

All amounts due from a related party are unsecured, interest-free and repayable on demand, except for the amount corresponding to the property mortgage loan entered by our Group on behalf of our Controlling Shareholder which bear interest at 1% per annum over HIBOR. All amounts due from/to related parties have been settled in June 2018. For further details of our related party transactions and balances, please refer to note 28 of the Accountant's Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on acquisitions of property and equipment in our operations. For FY2015, FY2016 and FY2017, our Group incurred capital expenditures of nil, HK\$1.3 million and HK\$90,000, respectively, the majority of which came from the acquisition of motor vehicles in FY2016 primarily used for our site visits and acquisition of office equipment in FY2017. Between 31 December 2017 and the Latest Practicable Date, we did not make any material capital expenditures.

We estimate that our planned capital expenditures for the two years ending 31 December 2019 will amount to HK\$7.3 million primarily for acquisition of motor vehicles, establishment of showroom and improvement in information technology system. Our Group's planned capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and proposed use of proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Share Offer, cash generated from our operating activities and proceeds from borrowings. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of the reporting periods during the Track Record Period, our Group had commitments for future minimum lease payments in respect of storage spaces and office premises under non-cancellable operating lease arrangements, which fall due as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Not later than 1 year	3,656	2,840	2,211
Later than 1 year and no later than 5 years	<u>5,051</u>	<u>2,211</u>	<u>—</u>
Total	<u>8,707</u>	<u>5,051</u>	<u>2,211</u>

Capital commitments

During the Track Record Period, we had no capital commitment that were not provided for in our combined financial statements.

FINANCIAL INFORMATION

INDEBTEDNESS

The following table sets out our total indebtedness as at 31 December 2015, 2016 and 2017 and 30 April 2018:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Bank borrowings:				
Bank overdrafts	10,051	18,696	7,919	19,373
Secured term loans	10,000	6,250	3,591	1,276
Secured trust receipt loans	71,867	55,857	74,876	74,900
Secured revolving loans	18,500	18,500	16,500	16,500
Secured bank loans	<u>13,576</u>	<u>12,900</u>	<u>—</u>	<u>—</u>
	123,994	112,203	102,886	112,049
Amounts due to a related party	—	—	391	—
Obligations under finance leases	<u>432</u>	<u>1,172</u>	<u>873</u>	<u>772</u>
Total indebtedness	<u><u>124,426</u></u>	<u><u>113,375</u></u>	<u><u>104,150</u></u>	<u><u>112,821</u></u>

Bank borrowings

Our bank borrowings including bank overdrafts amounted to HK\$124.0 million, HK\$112.2 million, HK\$102.9 million and HK\$112.0 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The following table sets forth the repayment schedule of our bank borrowings without taking into account the effect of any repayment on demand as at the dates indicated:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Within 1 year	98,844	96,229	102,886	112,049
Between 1–2 years	3,176	3,176	—	—
Between 2–5 years	11,778	3,278	—	—
Over 5 years	<u>10,196</u>	<u>9,520</u>	<u>—</u>	<u>—</u>
	123,994	112,203	102,886	112,049
	<u><u>123,994</u></u>	<u><u>112,203</u></u>	<u><u>102,886</u></u>	<u><u>112,049</u></u>

FINANCIAL INFORMATION

The weighted average interest rates for our bank borrowings was 3.31%, 3.85%, 3.83% and 4.29% as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively.

The majority of our bank borrowings are secured by certain assets and guarantees. As at 31 December 2015, 2016 and 2017 and 30 April 2018, HK\$113.9 million, HK\$93.5 million, HK\$95.0 million and HK\$92.7 million of our bank borrowings, respectively, are secured by (a) a legal charge on the leasehold properties of our Controlling Shareholder and a related company; (b) joint and several personal guarantees executed by our Directors; (c) corporate guarantees given by our related companies; (d) trade and retention receivables amounted to HK\$19.6 million, HK\$75.4 million, HK\$31.9 million and HK\$42.0 million respectively; (e) unlimited guarantee from our Controlling Shareholder; (f) limited guarantee from Hong Kong Special Administrative Region Government; (g) pledged deposits amounted to HK\$11.0 million, HK\$11.0 million, HK\$19.1 million and HK\$19.1 million respectively; and (h) amounts due from customers for contract works amounted to nil, nil, HK\$27.0 million and HK\$35.5 million respectively. Guarantees and legal charge on assets executed by our Controlling Shareholder, our Directors and related companies will be released upon listing.

Certain bank borrowings of our subsidiaries contain conditions and covenants that require us to obtain the bank's consents prior to certain activities and/or entering into certain transactions, such as change in directors or beneficial ownership or amendment to its memorandum of association and articles of association or equivalent constitutional documents, maintain insurance cover over its business and assets. Our Directors confirm that there had not been any delay or default in repayment of borrowings or any breach of or material non-compliance with the covenants or requirements contained in our borrowings agreements that affect the renewal of such borrowings throughout the Track Record Period and up to the Latest Practicable Date. Our Directors do not expect that such covenants and requirements would materially restrict our Group's overall ability to undertake additional debt or equity financing.

Our bank borrowings decreased from HK\$124.0 million as at 31 December 2015 to HK\$112.2 million as at 31 December 2016 due to repayment and further decreased to HK\$102.9 million as at 31 December 2017 as a result of partial repayment of bank overdrafts in December 2017. Our bank borrowings increased to HK\$112.0 million as at 30 April 2018 mainly due to increase in bank overdrafts.

As at 30 April 2018, being the latest practicable date for the purpose of indebtedness statement, we had aggregate banking facilities of HK\$141.2 million, of which HK\$29.2 million was unutilised. We are not committed to draw down the unutilised amount.

Other borrowings

During FY2015, as the additional assets or guarantees required to be pledged or provided as a security for additional bank borrowings was not considered acceptable to us, we have obtained certain financing from an Independent Third Party (the "**Financier**"), for settlement of our procurement of raw material and services. The Financier is a company incorporated in Hong Kong engaging in provision of financing services for export and import trading. Such arrangements were made on an as-needed basis which we considered as a more flexible source of funding in addition to bank borrowings.

FINANCIAL INFORMATION

When we need external funding for the procurement of raw materials and services for our projects, we may enter into a financing arrangement with the Financier, where necessary, whereby the finance cost charged at an effective rate of 1.7% of our borrowing from the Financier during the relevant period. The Financier offered a credit period ranged from 120 days to 180 days after the loan was advanced.

We have ceased such financing arrangement with the Financier since June 2015.

Certain of our purchases in RMB were settled under such financing arrangements, please refer to the section “Business — Legal Compliance” in this Prospectus for the implication under the Foreign Currency Administration Rules.

Obligations under finance leases

During the Track Record Period, we leased certain of our motor vehicles under finance leases. The table below sets out repayment schedule of our finance leases as at the dates indicated:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Within one year	144	299	260	224
In the second to fifth year inclusive	<u>288</u>	<u>873</u>	<u>613</u>	<u>548</u>
	<u>432</u>	<u>1,172</u>	<u>873</u>	<u>772</u>

The original lease term entered by us for the leases outstanding as at 31 December 2015, 2016 and 2017 and 30 April 2018 are five years. Interest rates underlying all obligations under finance leases as at 31 December 2015, 2016 and 2017 and 30 April 2018 are fixed at respective contract dates ranging from 3.79% to 4.64% per annum, 3.40% to 4.64% per annum, 3.40% to 4.64% per annum and 3.51% to 5.39% per annum, respectively.

All the obligations under finance leases are secured by our motor vehicles under finance leases.

During the Track Record Period, we did not experience any delay or default in repayment of bank and other borrowings nor experience any difficulty in obtaining financing with terms that are commercially acceptable to us. As at the Latest Practicable Date, we were negotiating for a new banking facility of HK\$15.0 million with a bank.

FINANCIAL INFORMATION

Contingent liabilities

Corporate guarantee to a related company

As at 31 December 2015, 2016 and 2017 and 30 April 2018, certain subsidiaries of our Group jointly provided corporate guarantee to a bank to secure banking facilities granted to a related company to the extent of HK\$11.0 million, HK\$11.0 million, HK\$45.0 million and HK\$39.6 million, respectively. Such guarantee will be released upon Listing.

Performance Bonds

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our Company took out performance bonds in respect of construction contracts through a bank amounted to HK\$5.0 million, HK\$2.7 million, HK\$2.8 million and HK\$2.8 million, respectively.

As at 31 December 2015, 2016 and 2017 and 30 April 2018, the performance bonds were secured by the following:

- (a) A legal charge on the leasehold properties of our Controlling Shareholder and a related company;
- (b) Joint and several personal guarantees executed by our Directors;
- (c) Corporate guarantees given by related companies;
- (d) Trade and retention receivables amounted to HK\$19.6 million, HK\$75.4 million, HK\$31.9 million and HK\$42.0 million respectively;
- (e) Unlimited guarantee from our Controlling Shareholder;
- (f) Pledged deposits amounted to HK\$11.0 million, HK\$11.0 million, HK\$11.1 million and HK\$11.1 million respectively; and
- (g) Amounts due from customers for contract works amounted to nil, nil, HK\$27.0 million and HK\$35.5 million respectively.

The above securities and guarantees provided to a bank from our Controlling Shareholder and related companies will be released before or upon Listing.

Legal case

In 2016, a worker of the Group's subcontractor initiated a personal injuries claim against, inter alia, the main contractor of our project and a subsidiary of our Group. As at 30 April 2018, the plaintiff had filed a revised statement of damages and the hearing of the proceedings was held in May 2018. The amount being claimed was approximately HK\$8.5 million. As at the Latest Practicable Date, the plaintiff and the defendants were attempting to resolve the claim through mediation. The amount of claim is expected to be fully covered by the relevant insurance policy taken out by the main contractor. Please refer to section headed "Business — Litigation and Potential Claims — (ii) outstanding personal injury claim as at the Latest Practicable Date" in this Prospectus for details.

FINANCIAL INFORMATION

As at 30 April 2018, save as disclosed above, and apart from intra-group liabilities, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in note 28 to the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	Year ended 31 December		
	2015	2016	2017
Gross profit margin (%) ⁽¹⁾	34.4	28.8	28.0
Net profit margin (%) ⁽²⁾	20.7	12.3	11.2
Return on equity (%) ⁽³⁾	250.8	95.8	54.6
Return on total assets (%) ⁽⁴⁾	17.6	13.4	12.1
Interest coverage (times) ⁽⁵⁾	12.0	9.2	7.9
	As at 31 December		
	2015	2016	2017
Current ratio ⁽⁶⁾	1.0	1.3	1.3
Quick ratio ⁽⁷⁾	1.0	1.3	1.3
Gearing ratio (%) ⁽⁸⁾	6,202.7	205.7	278.5
Net debt to equity ratio (%) ⁽⁹⁾	5,617.7	185.1	226.2

Notes:

- (1) Gross profit margin for FY2015, FY2016 and FY2017 was calculated based on gross profit divided by revenue from continuing operations for the respective years. See the paragraph headed "Review of Historical Results of Operation" in this section for more details on our gross profit margins.
- (2) Net profit margin for FY2015, FY2016 and FY2017 was calculated based on profit for the year divided by revenue from continuing operations for the respective years. See the paragraph headed "Review of Historical Results of Operation" in this section for more details on our net profit margins.

FINANCIAL INFORMATION

- (3) Return on equity for FY2015, FY2016 and FY2017 was calculated based on the profit for the year from continuing operations divided by the sum of opening and closing balances of the total equity of the respective years and then divided by two and multiplied by 100%.
- (4) Return on total assets for FY2015, FY2016 and FY2017 was calculated based on the profit for the year from continuing operations divided by the sum of opening and closing balances of the total assets of the respective years and then divided by two and multiplied by 100%.
- (5) Interest coverage is calculated based on operating profit for the respective years divided by interest expenses for the respective year.
- (6) Current ratios as at 31 December 2015, 2016 and 2017 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (7) Quick ratios as at 31 December 2015, 2016 and 2017 were calculated based on the total current assets less inventories balances as at the respective dates divided by the total current liabilities as at the respective dates.
- (8) Gearing ratios as at 31 December 2015, 2016 and 2017 were calculated based on all borrowings as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (9) Net debt to equity ratios as at 31 December 2015, 2016 and 2017 was calculated based on net debts (being all borrowings net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective dates.

Return on equity

Our return on equity was 250.8%, 95.8% and 54.6% for FY2015, FY2016 and FY2017, respectively. The decrease in return on equity for FY2016 was mainly due to (i) the decrease in our profit from continuing operations for FY2016 by HK\$16.8 million or 38.0%; and (ii) the increase in capital reserve as a result of a deemed contribution of HK\$25.7 million from the Controlling Shareholder during FY2016. The further decrease in return on equity in FY2017 was mainly due to (i) the decrease in our profit from continuing operations for FY2017 by HK\$2.1 million or 7.7%; and (ii) increase in average equity during the Track Record Period.

Return on total assets

Our return on total assets was 17.6%, 13.4% and 12.1% for FY2015, FY2016 and FY2017, respectively. The fluctuations in our return on total assets primarily reflected changes in our profit from continuing operations for FY2015, FY2016 and FY2017.

Interest Coverage

Our interest coverage was 12.0 times, 9.2 times and 7.9 times for FY2015, FY2016 and FY2017, respectively. Our relatively higher interest coverage at 12.0 times in FY2015 was mainly due to the increase in our revenue and gross profit from our substantial of works performed for a sizeable and luxurious residential project at the Peak in FY2015. Our interest coverage at 9.2 times in FY2016 was mainly due to the decrease in our finance costs as we ceased to make borrowings from a financier and a related party in 2015. Our interest coverage then further decreased to 7.9 times in FY2017 was a combined result of decrease in our profit from continuing operations and increase in our finance costs for FY2017.

FINANCIAL INFORMATION

Current ratio

Our current ratio remained relatively stable at 1.0, 1.3 and 1.3 as at 31 December 2015, 2016 and 2017, respectively.

Quick ratio

Our quick ratio remained relatively stable at 1.0, 1.3 and 1.3 as at 31 December 2015, 2016 and 2017, respectively.

Gearing ratio

Our gearing ratio was 6,202.7%, 205.7% and 278.5% as at 31 December 2015, 2016 and 2017, respectively.

Our relatively high gearing ratio during the Track Record Period was mainly attributable to the high utilisation of our banking facilities and other borrowings during the Track Record Period as our business is capital intensive that we require substantial financial resources for procurement of raw materials and conduct various preliminary works in the early stage of our projects, while we normally receive progress payment after our works have been performed and relevant payment application has been approved by our customers. As at 31 December 2015, 2016 and 2017, our total indebtedness, including bank and other borrowings and obligations under finance leases was HK\$124.4 million, HK\$113.4 million and HK\$104.2 million, respectively. Please refer to paragraph headed “Indebtedness” in this section for details.

Our relatively high gearing ratio of 6,202.7% as at 31 December 2015 was mainly attributable to a dividend of HK\$75.0 million declared during FY2015 that resulted in a reduction in our total equity. Our gearing ratio decreased from 6,202.7% as at 31 December 2015 to 205.7% as at 31 December 2016 mainly due to the accumulation of retained earnings through our profit generated for FY2016 coupled with a deemed contribution of HK\$25.7 million from the Controlling Shareholder during the year. Our gearing ratio increased to 278.5% as at 31 December 2017 mainly attributable to decrease in total equity as a result of interim dividend of HK\$43.0 million declared in FY2017.

Net debt to equity ratio

Our net debt to equity ratio was 5,617.7%, 185.1% and 226.2% as at the year ended 31 December 2015, 2016 and 2017, respectively. The fluctuations in our net debt to equity ratio during the Track Record Period was in line with changes in our gearing ratio and attributable to reasons discussed above.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity.

Details of the risks to which we are exposed to are set out in Note 3 to the Accountant’s Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and other fees and expenses incurred in connection with the Share Offer and the Listing. Assuming an Offer Price of HK\$0.45 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, our total listing expenses is estimated to be approximately HK\$47.8 million, of which approximately HK\$18.2 million is directly attributable to the issue of new Shares and to be accounted for as a deduction from the equity, and the remaining amount of approximately HK\$29.6 million has been or will be reflected in the combined statements of comprehensive income of our Group. Listing expenses of HK\$1.2 million, HK\$9.8 million and HK\$9.0 million in relation to services already performed by relevant parties, were reflected in our combined statements of comprehensive income for FY2015, FY2016 and FY2017, respectively, and HK\$9.6 million of additional listing expenses are expected to be recognised in the combined statement of comprehensive income of our Group subsequent to the Track Record Period. The listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. Our results of operations subsequent to the Track Record Period may be adversely affected by the listing expenses we incurred in the period.

DIVIDEND

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. Dividend of HK\$75.0 million had been declared by one of our subsidiaries to its then shareholders for FY2015 and was subsequently paid during FY2016. Dividend of HK\$43.0 million had been declared by one of our subsidiaries to its then shareholders for FY2017 and was settled by way of offsetting against the amount due from our Controlling Shareholder. Any declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Group currently does not have a pre-determined dividend pay-out ratio. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

Our Company was incorporated on 2 February 2016 and is an investment holding company. Our Company had no reserve available for distribution to the Shareholders as at 31 December 2017.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please see the section headed “Unaudited pro forma financial information” in Appendix II for our unaudited pro forma adjusted net tangible assets.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares to be allotted and issued pursuant to the exercise of any options to be granted under the Share Option Scheme or the Over-allotment Option), our Controlling Shareholders, comprising Mr. Lui and PMG Investments, are together entitled to control the exercise of the voting rights of 75% of the Shares eligible to vote in the general meeting of our Company.

Save as disclosed above, there is no other person who will, immediately following the completion of the Share Offer (without taking into account of any allotment and issue of Shares pursuant to the exercise of any options to be granted under the Share Option Scheme or the Over-allotment Option), be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

EXCLUDED BUSINESS

As at the Latest Practicable Date, our Controlling Shareholders and their respective close associates had been conducting other businesses or holding interest directly or indirectly in certain companies (collectively, the “**Excluded Group**”) which are engaged in the granite and marble related industry but not in direct or indirect competition with the businesses of our Group to a material extent. Set out below are the interests of our ultimate Controlling Shareholder, Mr. Lui, in marble and granite related business as at the Latest Practicable Date (collectively, the “**Excluded Businesses**”) which were not included in our Group after the Reorganisation:

(i) Sale of marble and granite products in PRC

Name of company	Place of incorporation	Nature of business	Beneficial interest held by Mr. Lui	Legal representative/ director
Prime Scope	BVI	Investment holding	Mr. Lui is interested in 100% directly	Mr. Lui
Welltune Development Ltd (宏通發展有限公司)	BVI	Investment holding	Mr. Lui is interested in 100% indirectly	Prime Scope
Shanghai Pacific Marble	China	Principally engaged in sale of marble and granite products sourced from third party suppliers and those produced from the Excluded Quarries, in PRC	Mr. Lui is interested in 90.48% indirectly	Mr. Lui, Ms. Lui and two Independent Third Parties

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(ii) Production and sale of granulated calcium carbonate powder

Name of company	Place of incorporation	Nature of business	Beneficial interest held by Mr. Lui	Legal representative/directors
Pacific Mining Industry Limited (“Pacific Mining”)	BVI	Investment holding	Mr. Lui is interested in 100% indirectly	Mr. Lui and Ms. Lui
Pacific (Nanyang) Mining Industry Limited 太平洋(南陽)礦業有限公司 (“Pacific (Nanyang)”)	Hong Kong	Investment holding	Mr. Lui is interested in 100% indirectly	Mr. Lui and Ms. Lui
南陽太平洋潤興石業有限公司 (Nanyang Pacific Runxing Marble Company Limited (“Nanyang Pacific”))*	China	Principally engaged in the production and sale of granulated calcium carbonate in PRC	Mr. Lui is interested in 100% indirectly	Mr. Lui, and Mr. Lui Wing Yiu (雷永耀), the nephew of Mr. Lui

* Translation of names for identification purpose only

(iii) Investment in quarry and sale of stone blocks

Name of company	Place of incorporation	Nature of business	Beneficial interest held by Mr. Lui	Legal representative/directors
PMG BVI	BVI	Investment holding	Mr. Lui is interested in 100% directly	Mr. Lui
PMG Holdings	HK	Investment holding	Mr. Lui is interested in 100% indirectly	Mr. Lui and Ms. Lui
PMG (China) Limited (“PMG China”)	HK	Investment holding	Mr. Lui is interested in 100% indirectly	Mr. Lui and Ms. Lui
上海宏筠礦業投資有限公司 (Shanghai Hongjun Mining Investments Limited (“Hongjun Mining”))* (Note)	China	Investment holding	Mr. Lui is interested in 95% indirectly	Ms. Lui

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Name of company	Place of incorporation	Nature of business	Beneficial interest held by Mr. Lui	Legal representative/ directors
紫雲縣蕙佑礦業有限公司 (Ziyun Huiyou Mining Limited (“Ziyun Huiyou”)) * (Note)	China	Holds a marble concession right of a quarry in Guizhou province, PRC (the “ Guizhou Quarry ”) and principally engaged in the excavation and production of stone blocks and sale of slabs	Mr. Lui is interested in 100% indirectly	Ms. Lui
丘北太平洋淘記石業有限公司 (Qiubei Pacific Xunji Marble Limited (“Qiubei Pacific”)) * (Note)	China	Currently with no active businesses and has entered into an agreement for acquiring marble concession rights of a quarry in Yunnan Province, PRC (the “ Yunnan Quarry ”). Upon obtaining all permits, it will be engaged in excavation and production of stone blocks	Mr. Lui is interested in 100% indirectly	Ms. Lui
廈門亞太宏康石業有限公司 (Xiamen Yatai Hongkang Marble Limited)*	China	Principally engaged in the marketing and promotion of stone blocks that are produced from the Guizhou Quarry, the Yunnan Quarry and the Croatia Quarry (as defined below)	Mr. Lui is interested in 100% indirectly	Mr. Lui Wing Yiu (雷永耀), the nephew of Mr. Lui
Pacific Adria Limited (“Pacific Adria”)	Hong Kong	Investment holding	Mr. Lui is interested in 51% indirectly	Mr. Lui, Ms. Lui and two Independent Third Parties
SENIOR d.o.o.	Croatia	Holds marble concession right of a quarry in Vrsine, Croatia (the “ Croatia Quarry ”) and mainly engaged in excavation and production of limestone in Croatia and sale of stone blocks that are produced from the Croatia Quarry	Mr. Lui is interested in 51% indirectly	Mr. Lui and Ms. Lui

* Translation of names for identification purpose only

Note:

Shanghai Hongjun owns the 100% equity interests in Qiubei Pacific and 95% equity interests in Hongjun Mining, which in turn holds 100% equity interests in Ziyun Huiyou. Shanghai Hongjun was transferred from PMG (HK) to PMG Holdings as part of the Reorganisation. Please refer to the section headed “History and development — (ii) Equity transfer of Shanghai Hongjun” in this Prospectus for further details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

REASON FOR EXCLUSION OF THE EXCLUDED BUSINESSES IN OUR GROUP

During the Track Record Period, our Group principally engaged in the (i) supply of marble and granite and provision of relevant installation services for construction or renovation projects in Hong Kong; and (ii) sale of stone on project or wholesale basis, whereas the Excluded Group was engaged in (i) sale of marble and granite products in PRC, (ii) production and sale of granulated calcium carbonate powder, and (iii) investment in quarries, production and sale of stone blocks produced from such quarries. The Directors consider that the business of our Group and that of the Excluded Group are distinctly different and there is neither direct nor indirect competition between our Group and the Excluded Group as further explained below to a material extent:

(i) Different products and services and target customers

We supply cut-to-size marble and granite panels for our installation projects or stone sale contracts according to the specifications as specified by our customers, from quarries or their distributors, process and fabricate the stone blocks into finished pieces which are then installed at our customers' project sites. For stone installation projects, our Group will also form a professional team to monitor the implementation of the projects and the quality and workmanship throughout the installation process. Since we are a service provider, we do not own any material physical machinery or warehouse to stock stone blocks, stone slabs or cut-to-size panels for our projects. Our target customers are mainly main contractors of property projects in Hong Kong. During the Track Record Period, there was no overlap of customers and suppliers between our Group and Shanghai Pacific Marble. However, as our customers (i.e. property developer or main contractor) always have the right to decide the type of stone or marble and source/supplier based on project requirements, a supplier of our Group in future may or may not be a supplier of Shanghai Pacific Marble.

Further, we do not own any quarry. We only engage in the sale of stone but not granulated calcium carbonate powder. Save for the sale of stone blocks, which will be explained further below, our Directors are of the view that the products provided by our Group and those offered by the Excluded Group are clearly differentiated.

In relation to the investment in quarries, mining, processing and sale of stone blocks that were produced from the Guizhou Quarry, Yunnan Quarry and Croatia Quarry (the "Excluded Quarries"), during the Track Record Period, the stone blocks produced from these quarries were mainly sold to local customers and wholesalers within the PRC, and to overseas importers. Save for the Discontinued Business, there were no sale or purchase of stone blocks between our Group and the Excluded Group during the Track Record Period. Our customers had not been a customer of the Excluded Quarries. In FY2015, FY2016 and FY2017, marble blocks and stones of HK\$8.0 million, HK\$0.3 million and nil produced from the Excluded Quarries had been sold to our suppliers and none of which were resold to our Group. Our Directors also confirmed that there are no suppliers for this segment of Excluded Business. Due to the nature of such business, in particular, (i) high capital investment required for the acquisition of quarries and different extraction and cutting equipment and machinery; (ii) legal requirements such as obtaining of proper quarry concession right and licences, relevant safety and environmental protection certifications; and (iii) the requirements for different types of labour skills in excavation and production of marble, our Directors consider that such business does not align with our Group's business focus. Our Directors further consider that the target customers and suppliers of this sector of the Excluded Business are distinctly different from that of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In respect of the production and sale of granulated calcium carbonate powder business of the Excluded Group, these products are sold to manufacturers of cultured marble products and for manufacturing of polyvinyl chloride and other plastic products, whereas the Excluded Group does not manufacture cultured marble products. The potential customers of the granulated calcium carbonate powder include manufacturers of cultured marble products, rubber, paint, paper, adhesive, sealant, drug, cosmetic and animal feed products and were neither customers nor suppliers of our Group. Since the product nature and target customers of this type of Excluded Business are different from our Group, there was no transaction between our Group and companies associated with this type of Excluded Business. The production of the granulated calcium carbonate powder business involves largely two major steps, namely, milling and sieving. The Excluded Group employs explosives and milling machines for crushing and grinding the larger stone particles into powder, then makes use of sieves to ensure that the particle size is correct. As such, the equipment and technological know-how required for producing granulated calcium carbonate powder of the Excluded Group, and supply of cut-to-size marble and granite panels for our installation projects or stone sale contracts of our Group, are different. Our Directors further consider that such business is of a different nature to that of our business as well as our Group and the Excluded Group have different target customers in this regard.

In respect of the sale of stone blocks produced by the Excluded Quarries, the Excluded Group acts as the stone supplier. In contrast, our Group mainly sources cut-to-size marble panels for our projects from the stone suppliers according to the specifications from our customers. During the Track Record Period, we had not invested in any quarry, or purchased any marble blocks produced by the Excluded Quarries for our projects to our customers. Our Directors are of the view that given the different target customers and different nature of business, our Group's interests are well-protected under the Deed of Non-competition.

Further, except for the discontinued related party transaction regarding the sale of stones to Shanghai Pacific Marble as disclosed in note 28(c)(ii) of the Accountant's Report set out in Appendix I to this Prospectus, there were no sales and purchases transaction between the Group and the Excluded Group.

(ii) Clear geographical delineation

Our Group ceased the Discontinued Business since July 2015 and since then, our Group has been focusing on the trading of marble and granite in Hong Kong whereas the Excluded Group provides its marble and granite trading business in the PRC. As such, the business in respect of the trading of marble and granite of our Group and the Excluded Group is clearly delineated by reference to their respective geographical locations. Our Directors confirmed that there was no overlapping of employees, properties equipment and facilities between the Group and the Excluded Businesses save for the same management under Mr. Lui and Ms. Lui. Please refer to the paragraph headed "Management independence" in this section below for further details.

Under the terms of the Deed of Non-competition, the stone blocks produced from the Excluded Quarries can be sold worldwide, while the supply of stone slabs and stone blocks not produced from these quarries can be carried out by the Excluded Group in the PRC only. Moreover, neither our Controlling Shareholders nor our Group has any obligation to purchase and import any marble and granite materials produced from the Excluded Businesses to Hong Kong. In the event that our Group purchases marble blocks or marble slabs from the Excluded Group, it may constitute a connected

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

transaction. We will comply with the requirements under the Listing Rules as and when appropriate. During the Track Record Period, there was no customer or supplier who was also a customer or supplier to both our Group and the Excluded Group. Our Directors consider that the geographical delineation between our Group and Excluded Group is essential and effective in ring-fencing the Excluded Business.

Based on the aforesaid, our Directors are of the view that our Board as a whole, together with our senior management, are capable of managing our business independent of our Controlling Shareholders and their respective close associates.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe 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 Share Offer.

Financial independence

Our Board believes that we are able to operate financially independently from our Controlling Shareholders and their respective close associates for the reason that:

- (i) Our Group has its own accounting and finance department and makes financial decisions according to our own business needs and we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment;
- (ii) During the Track Record Period, we had borrowed from related parties for our operations with interest charges during the process and were fully repaid at the Latest Practicable Date. For details, please refer to the sections headed “Financial information — Amounts due from/to a related parties” and “Notes to the combined financial information — 28. Related parties balances and transactions — (b) The Group had the following material non-trade balances due to related parties” in Appendix I of this Prospectus. Save as disclosed, none of our operations were financed by our internal resources and no financial assistance had been obtained from our Controlling Shareholders and their respective close associates;
- (iii) All loans, advances and balances due to and from our Controlling Shareholders and their respective close associates will be fully settled prior to Listing and that all securities and guarantees provided by our Controlling Shareholders and their respective close associates on our Group’s borrowing and performance bonds in issue will be fully released upon Listing; and
- (iv) Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Share Offer as we expect that our working capital will be funded by our income generated.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational independence

Our operations are independent of and not connected with any of our Controlling Shareholders and their respective close associates, having considered that:

- (i) we have established our own organisational structure comprising individual departments, each with specific areas of responsibilities, and divisional teams and facilities for each of our operating business segments, each of which has a clear delineation of duties and functions from the operational perspective;
- (ii) our Group has not shared our operational resources, such as customers, marketing, sale and general administration resources with our Controlling Shareholders and/or their respective close associates;
- (iii) our Controlling Shareholders and/or any of their respective close associates have no interest in any of our top five largest customers, suppliers or other business partners, and none of our Controlling Shareholders and their respective close associates are major suppliers or major customers of our Group;
- (iv) we have our own management team which is independent of our Controlling Shareholders. Please refer to the paragraph headed “Management independence” below in this section for further details;
- (v) we are not reliant on trademarks owned by our Controlling Shareholders or their respective close associates; and
- (vi) our major operating subsidiaries have obtained all relevant licences that are necessary for their operations in their own names.

Our Directors consider that our Group can operate independently from our Controlling Shareholders and/or any of their respective close associates from the operational perspective.

Management independence

Our Board comprises seven Directors, of whom three are executive Directors, one is non-executive Director and three are Independent Non-executive Directors. With the appointment of the Independent Non-executive Directors to our Board, we maintain and will continue to import independent and impartial judgment of our Independent Non-executive Directors on our corporate decisions independently from our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The table below sets out the directorships which our executive Directors and members of the senior management have in our Controlling Shareholders and their respective close associates immediately following the Listing:

Name	Positions held within our Company	Positions held within the excluded companies
Mr. Lui	Executive Director	<ol style="list-style-type: none"> 1. Director of Prime Scope 2. Director of PMG Holdings 3. Director of PMG (China) 4. Director of Pacific Mining 5. Director of Pacific (Nanyang) 6. Director of PMG (BVI) 7. Director of Shanghai Pacific Marble 8. Director of Nanyang Pacific 9. Director of Pacific Adria 10. Director of Senior d.o.o.
Ms. Lui	Executive Director	<ol style="list-style-type: none"> 1. Director of PMG Holdings 2. Director of PMG (China) 3. Director of Pacific Mining 4. Director of Pacific (Nanyang) 5. Director of Shanghai Pacific Marble 6. Director of 上海宏筠礦業投資有限公司 (Shanghai Hongjun Mining Investments Limited)* 7. Director of 紫雲縣蕙佑礦業有限公司 (Ziyun Huiyou Mining Limited)* 8. Director of 丘北太平洋淘記石業有限公司 (Qiubei Pacific Xunji Marble Limited)* 9. Director of Pacific Adria 10. Director of Senior d.o.o.
Mr. Siu Chi Fung Stephen	Executive Director	Resigned from the directorship in the Excluded Group since 19 October 2017
Mr. Leung Lai Sang Ellis	Non-Executive Director	N/A
Mr. Fung Wai Hang	Company secretary and financial controller	N/A
Mr. Kan Shu Kai Raie	Project director	N/A

* Translation of names for identification purpose only

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Although Mr. Lui and Ms. Lui held directorships or positions in some of the close associates of our Controlling Shareholders, the directorships or positions held by them only require them to provide and give strategic advice and planning when needed. In addition, each of Mr. Lui and Ms. Lui Po Kwan Joyce has confirmed that they will devote sufficient time and efforts to our Group. Furthermore, each of our Group and the Excluded Group has its own management team for their respective day-to-day operation. As such, the overlapping directorship will not hinder our Group from operating independently from the Excluded Group.

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 he/it will, in accordance with the Articles of Association of our Company and the Listing Rules, declare his/its interests and, where required, abstain from voting at any board meeting and/or general meeting of our Company and not be counted as quorum where required, if there is any actual or potential conflict of interests.

Our Company has established corporate governance procedures in safeguarding the interests of our Shareholders and enhancing Shareholders' value. Each of our Directors is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her interest to exist, and will abstain from voting on any matter where there is or may be a conflict of interest in accordance with the Articles and/or the Listing Rules.

Save as disclosed above, our Directors and senior management do not hold any directorships or positions in our Controlling Shareholders or their respective close associates. Despite disclosed above, we have management independence from our Controlling Shareholders and their respective close associates by reason of the Deed of Non-competition and corporate governance measures. For details, please refer to the paragraphs headed "Deed of Non-competition" and "Corporate governance measures" in this section below.

Administrative independence

Our Group has our own capabilities and personnel to perform all essential administrative functions, including but not limited to internal control, human resources and information technology.

Our company secretary is independent of our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

Mr. Lui and PMG Investments, our Controlling Shareholders (the “**Covenantors**”, and each of them, a “**Covenantor**”), entered into a Deed of Non-competition in favour of our Company (for itself and as trustee for its subsidiaries) on 11 June 2018:

- (a) Subject to the terms and conditions of the Deed of Non-competition, the Covenantors irrevocably and unconditionally undertakes to and covenants with our Company (for itself and as trustee for its subsidiaries) that, during the period in which the Covenantors are subject to the provisions of the deed:
 - (i) he/she/it will not, and will procure his/her/its close associates and/or the companies controlled by him/her/it (other than members of our Group) not to, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be engaged in, invest in, acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise and whether for interest, return or otherwise) any business which is or may be in competition with the business currently and from time to time engaged by our Group in Hong Kong and any other country or jurisdiction to which our Group provides such services and/or in which any member of our Group carries on business mentioned above currently and from time to time, but for the avoidance of doubt excludes the Excluded Businesses (the “**Restricted Business**”);
 - (ii) if he/she/it and/or any of his/her/its close associates has received, is offered or has identified any business investment or other business opportunity relating to the Restricted Business (the “**New Business Opportunity**”), he/she/it and/or any of his/her/its close associates shall (i) immediately give a notice in writing to our Company in respect of such New Business Opportunity, setting out all reasonably necessary information for our Group to make an informed assessment; and (ii) use his/her/its efforts to assist our Company in acquiring such New Business Opportunity at terms and conditions no less favourable than those available to him/her/it and/or his/her/its close associates;
 - (iii) neither he/she/it nor any of his/her/its close associates, directly or indirectly, carries out, participates or is engaged in, invests in, acquires or holds (in each case whether as a shareholder, director, partner, agent, employee or otherwise and whether for interest, return or otherwise) or is otherwise involved (other than through our Group) in the Restricted Business;
 - (iv) he/she/it will provide all necessary information for our Directors (including the independent non-executive Directors) to review his/her/its compliance with and implementation of the Deed of Non-competition on an annual basis and, if necessary, make annual statements in respect of his/her/its compliance with and implementation of the Deed of Non-competition in the annual reports of our Company;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (v) he/she/it will allow our Directors, their respective representatives and auditors to have full access to his/her/its records and/or will procure his/her/its close associates to use their best efforts to allow our Directors, their respective representatives and auditors to have full access to their records, in order for him/her/it to meet the terms and conditions of the Deed of Non-competition; and
- (vi) for so long as he/she/it or any of his/her/its close associates, either alone or as a whole, remains our Controlling Shareholder (within the meaning of the Listing Rules) or Director:
 - i. he/she/it will not participate in, carry on or invest in any project or business opportunity that competes or may compete, directly or indirectly, with the business conducted by our Group from time to time;
 - ii. he/she/it will, in accordance with the Articles of Association of our Company and the Listing Rules, declare his/its interests and, where required, abstain from voting at any board meeting and/or general meeting of our Company and not be counted as quorum where required, if there is any actual or potential conflict of interests;
 - iii. he/she/it and his/its close associates (other than our Group) will not solicit any existing or then existing employee of our Group;
 - iv. without the consent of our Company, he/she/it will not use any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as our Controlling Shareholder and/or Director for any purposes; and
 - v. he/she/it will procure his/her/its close associates (other than our Group) not to participate in, carry on or invest in any project or business opportunity mentioned above (except pursuant to paragraph (a) below).

The non-competition undertakings made by the Covenantors do not apply in the following circumstances:

- (a) if the information on the principal terms of the New Business Opportunity has been made available to our Group and our Directors, and our Company has confirmed that, after review by our Directors (including the independent non-executive Directors, provided that the resolution shall be approved by the majority of independent non-executive Directors at a meeting in the absence of Directors who have beneficial interest in the project or business relating to such New Business Opportunity), it will refuse to operate, participate in or carry on such Restricted Business relating to such New Business Opportunity, then any close associate of the Covenantors (other than our Group) has the right to participate in, carry on or invest in any Restricted Business relating to such New Business Opportunity that have previously been offered to our Group, irrespective of the value of such business. Subject to the foregoing, if the Covenantors or any of his/her/its close associates has decided to directly or indirectly participate in, carry on or invest in any Restricted Business relating to such New

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Business Opportunity, they shall be subject to any conditions imposed by the independent non-executive Directors and shall disclose to our Company the terms under which they operate, participate or carry on such Restricted Business as soon as practicable; and

- (b) without prejudice to the principle of (a) above, the undertakings made by the Covenantors do not apply to any of the following:
 - (i) holding of shares or other securities issued by our Company or its subsidiaries;
 - (ii) where a company is a company listed on any recognized stock exchange (as defined under SFO) and holds the shares or securities in any company participating in any Restricted Business, the total interest (within the meaning of Part XV of the SFO) held by each of the Covenantors and his/her/its close associates is less than 5% of the share capital of such company; and
 - (iii) the involvement, participation or engagement in the business of, and/or the holding of interests by any of the Covenantors and/or his/her/its (their) close associates insofar as it does not conduct or is otherwise engaged in any Restricted Business.

The non-competition undertakings given by our Controlling Shareholders will take effect from the date on which dealings in our Shares first commence on the Main Board and will cease to have any effect upon the earlier of the date on which:

- (a) our Controlling Shareholders and his/her/its close associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as Controlling Shareholder of our Company; or
- (b) our Shares cease to be listed on the Stock Exchange (except for temporary suspension of our Shares due to any reason).

CORPORATE GOVERNANCE MEASURES

Our Controlling Shareholders and their respective close associates may not compete with us as provided in the Deed of Non-competition. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the Share Offer, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the board meetings on matters involving our Group and/or matters in which such Director or his close associates have a material interest;
- (c) we are committed that our Board should include a balanced composition of executive and independent non-executive Directors. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and senior management — Directors — Independent non-executive Directors” in this Prospectus;
- (d) we have appointed WAG Worldsec Corporate Finance Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance;
- (e) our Board is assisted and supported by our senior management in the discharge of its role. Our senior management comprises two members, each of which is independent from our Controlling Shareholders and their respective close associates and is responsible for the implementation of our business plan and strategy as laid down by our Board. As such, the operations of our Group are managed and operated independently from our Controlling Shareholders and their respective close associates; and
- (f) the management, operation and affairs of our Group are headed, managed and supervised independently by our Board and not by any individual Director. Our Board acts collectively by a majority decision according to the Articles, and no individual Directors is allowed to transact or can alone make any decision on behalf of our Company unless authorised by our Board or in accordance with the provisions of the Articles and the Companies Law. Any view of a Director will be checked and balanced by the view of other members of our Board.

As such, our Directors believe that the independence of our Board’s decisions in respect of any matters in which any of our Directors has a material interest is ensured.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INTERNAL MEASURES ADOPTED UPON LISTING

Our Group will setup internal procedures to ensure that our Group has complied with the Listing Rules if there is any transaction with the Excluded Group, which is considered a connected person as at the Latest Practicable Date. As confirmed by our Controlling Shareholders, the Excluded Businesses would notify us upon receiving any order for installation projects in Hong Kong or outside of the PRC or the supply of marble and granite materials for the delivery in Hong Kong or outside of the PRC and we will have the first right of refusal to take up such installation projects or enter such supply contract with the customers in Hong Kong or outside of the PRC. If specified by our customers, and in the event that our Group purchases any marble from the Excluded Quarries, such transactions may constitute a connected transaction for our Group upon Listing. Any connected transactions between our Company and companies controlled by our Controlling Shareholders upon Listing will be subject to the rules and regulations under the Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval (where applicable).

RULE 8.10 OF THE LISTING RULES

None of our Controlling Shareholders and their close associates and our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

Our Board of Directors consists of three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth the information concerning our Directors and senior management:

Name	Age	Position	Date of joining our Group	Date of Appointment as Director/ Senior Management	Roles and Responsibilities	Relationship with other Directors and Senior Management
Executive Directors						
Mr. Lui Yue Yun Gary	62	Executive Director, Chairman, Chief Executive Officer	19 December 1991	2 February 2016	Responsible for our Group's overall corporate strategies, management and business development	Father of Ms. Lui Po Kwan Joyce
Mr. Siu Chi Fung Stephen	68	Executive Director and Chief Financial Officer	1 July 2011	20 October 2017	Participates in the formulation of business strategy and business plan and is responsible for overseeing the finance, accounting, administration and compliance functions	N/A
Ms. Lui Po Kwan Joyce	32	Executive Director	31 December 2011	20 October 2017	Responsible for marketing and business strategies of our Group	Daughter of Mr. Lui Yue Yun Gary
Non-Executive Director						
Mr. Leung Lai Sang Ellis	63	Non-Executive Director	20 October 2017	20 October 2017	Responsible for participating in the formulation of corporate and business strategies	Brother-in-law of Mr. Lui
Independent Non-Executive Directors						
Mr. Ko Tsz Kin	48	Independent Non-Executive Director	11 June 2018	11 June 2018	Chairman of the Audit Committee, providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of Appointment as Director/ Senior Management	Roles and Responsibilities	Relationship with other Directors and Senior Management
Mr. Choi Hok Ya	63	Independent Non-Executive Director	11 June 2018	11 June 2018	Chairman of the Nomination Committee, providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance	N/A
Mr. Ng Yau Wah Daniel	63	Independent Non-Executive Director	11 June 2018	11 June 2018	Chairman of the Remuneration Committee, providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance	N/A
Senior Management						
Mr. Fung Wai Hang	32	Financial Controller and Company Secretary	23 August 2017	20 October 2017	Responsible for overall financial accounting and reporting, corporate finance and company secretarial matters	N/A
Mr. Kan Shu Kai Raie	54	Project Director	1 December 2015	1 December 2015	Responsible for overall projects management	N/A

DIRECTORS

Executive Directors

Mr. Lui Yue Yun Gary (雷雨濶) (“Mr. Lui”), aged 62, is one of our co-founder, executive Director, Chairman, Chief Executive Officer, chairman of nomination committee, member of remuneration committee, and is responsible for our Group’s overall corporate strategies, management and business development. Mr. Lui was appointed as the director of PMG and PMG (HK) in 2011 and in 1991, respectively.

Mr. Lui obtained a Bachelor’s degree in Civil Engineering from University of Toronto, Canada, in June 1979. In 1981, Mr. Lui co-founded Perfect Marble Company Limited, a subsidiary of a company whose shares were then listed on the Stock Exchange, whose principal business was contracting services in marble and granite works, with three Independent Third Parties and was responsible for the day to day management and formulating corporate strategies of the company. Mr. Lui sold his 49.9995% and 0.0005% interests in Perfect Marble Company Limited to two Independent Third Parties in 1994 and 1995, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lui has over 35 years of experience in marble and granite outfitting works and has been involved in numerous projects throughout the years. Mr. Lui had experience in leading certain stone supply and installation projects in Hong Kong and China, which related to (i) hotel renovation and development (including a five-star well-known international hotel); (ii) commercial plaza and office towers; and (iii) residential properties. With extensive experience in the stone supply and installation business, Mr. Lui has established a strong rapport with different main contractors and architects for various types of projects and brings in extensive knowledge of marble and granite selection and project management to the Group.

Mr. Lui was a director of the following company(ies) at the time or within 12 months from the time of its/their deregistration. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
AP Sunshine Development Limited	Investment holdings	11 November 2014	20 March 2015	Cessation of business
Asia Pacific Minerals Holdings Limited	Investment holdings	11 June 2007	18 October 2007	Cessation of business
China Marble & Granite (H.K.) Limited	Investment holdings	24 May 2004	30 September 2004	Cessation of business
Choiceville Properties Limited	Investment holdings	10 April 2000	18 August 2000	Cessation of business
Cosmos Eagle Limited	Investment holdings	24 May 2004	30 September 2004	Cessation of business
J M Dragon Limited	Investment holdings	23 October 2003	5 March 2004	Cessation of business
Keystone International Engineering Limited	Trading of marble and granite and subcontracting of construction and engineering of marble and granite (Inactive)	2 December 2016	13 April 2017	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
Keystone Marble and Granite Limited	Trading of marble and granite and subcontracting of construction and engineering of marble and granite	10 November 2000	23 March 2001	Cessation of business
New Win Goal Company Limited	Investment holdings	24 May 2004	30 September 2004	Cessation of business
Pacific Associate Stone Industries Limited	Investment holdings	7 June 2016	21 October 2016	Cessation of business
Skybo Marble & Granite (HK) Limited	Investment holdings	10 June 2014	7 November 2014	Cessation of business
Stoneplus International Limited	Trading of stone materials	12 May 2005	9 September 2005	Cessation of business
Sunwah Development Limited	Investment holdings	23 October 2003	5 March 2004	Cessation of business
Union Celebration Limited	Investment holdings	28 November 2000	30 March 2001	Cessation of business
Win Goal Construction Company Limited	Trading of marble and granite and subcontracting of construction and engineering of marble and granite	4 July 2001	16 November 2001	Cessation of business
Pacific Yun Shing Mining Industry Limited	Investment holding of mining company	17 May 2017	29 September 2017	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

The above company(ies) was/were dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance or section 291AA of the Predecessor Companies Ordinance. Mr. Lui confirms that the company(ies) listed above had been inactive and were solvent at the time of deregistration. Mr. Lui further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such company(ies) and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such company(ies).

Mr. Lui was the director of the following company(ies) which were incorporated in Hong Kong and struck off and dissolved pursuant to section 291 of the Predecessor Companies Ordinance which provides that the Registrar of Companies in Hong Kong can strike a defunct company off the register of companies. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of notice of striking off	Date of struck off
Asia Billion Investment Limited	Investment holdings	7 April 2006	4 August 2006
Asian Best Investment Limited	Investment holdings	31 March 2006	28 July 2006
Ronswick International Limited	Investment holdings	7 October 2005	3 February 2006
Waltle International Limited	Investment holdings	21 February 2003	20 June 2003

Mr. Siu Chi Fung Stephen (蕭智豐) (“Mr. Siu”), aged 68, joined our Group on 31 December 2011 as a director of PMG. He was then appointed as our executive Director and Chief Financial Officer on 20 October 2017 and a director of PMG (HK) in June 2018. Mr. Siu participates in the formulation of business strategy and business plan and is responsible for overseeing the finance, accounting, administration and compliance functions. He has over 30 years of experience in financial management.

Mr. Siu obtained a Bachelor’s degree in Arts from the School of Business Administration, University of Western Ontario, Canada, in 1974. He was accredited as a Certified Public Accountant of the United States of America in October 1986 and a Registered Industrial Accountant of Canada in April 1978.

In 1987, Mr. Siu joined Standard Chartered Bank Hong Kong Trustee Limited. He was promoted to the finance director of the Standard Chartered Equitor Group and served as a director of Standard Chartered Equitor Group Holdings Limited and a number of companies within the group and was responsible for leading the financial function for and modernising of the abovementioned companies within the group. From April 1994 to July 1999, he joined Asia Financial Holdings Limited with the last position being general manager and was responsible for group finance and planning. Mr. Siu joined the Bank Consortium Trust Company Limited in April 1999 and served as the managing director and chief executive officer during August 1999 to December 2001, and was responsible for instituting a MPF scheme, establishing the MPF administration and operation capabilities, and developing the business of the company. In September 2004, he joined the Hong Kong Trade Development Council as an assistant

DIRECTORS AND SENIOR MANAGEMENT

executive director and was primarily responsible for corporate development. In December 2006, Mr. Siu joined East West Bank Hong Kong Branch as the general manager and was primarily responsible for establishing the operational, risk management, compliance and marketing capabilities of the branch.

Mr. Siu was the director of the following company(ies) which was/were incorporated in Hong Kong and got struck off and dissolved pursuant to section 291 of the Predecessor Companies Ordinance which provides that the Registrar of Companies in Hong Kong can strike a defunct company off the register of companies. The relevant details are as follows:

Name of the company	Nature of business	Date of notice of striking off	Date of struck off
Hazetine Limited	Property holding	27 September 2002	21 February 2003

Ms. Lui Po Kwan Joyce (雷寶筠) (“Ms. Lui”), aged 32, was appointed as our executive Director and the head of our marketing department on 20 October 2017 and is responsible for the marketing and business strategies of the Group. Ms. Lui joined PMG Holdings since 2012 and is responsible for the relationship management with key clients and partners across Europe and Asia as well as investors relations. Ms. Lui is also the director of PMG and PMG (HK) since December 2011 and October 2015.

Ms. Lui obtained a Master degree in Arts from the University of Manchester, United Kingdom, in July 2011.

Ms. Lui was a director of the following company(ies) at the time or within 12 months from the time of its/their deregistration. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
Shun Lee (Bijie) Mining Industry Limited	Never commenced business	8 December 2011	27 April 2012	Cessation of business
Shun Lee (Ceheng) Mining Industry Limited	Never commenced business	8 December 2011	27 April 2012	Cessation of business
Shun Lee (Ziyun) Mining Industry Limited	Never commenced business	8 December 2011	27 April 2012	Cessation of business
Wysteria Limited	Never commenced business	4 August 2015	18 December 2015	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

The above company(ies) was/were dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance or section 291AA of the Predecessor Companies Ordinance. Ms. Lui confirms that the company(ies) listed above had been inactive and were solvent at the time of deregistration. Ms. Lui further confirms that there is no fraudulent act or misfeasance on her part leading to the deregistration of such company(ies) and she is not aware of any actual or potential claim has been or will be made against her as a result of the deregistration of such company(ies).

Non-Executive Director

Mr. Leung Lai Sang Ellis (梁勵生) (“Mr. Leung”), aged 63, was appointed as our non-executive Director on 20 October 2017. Mr. Leung is the brother-in-law of Mr. Lui and is responsible for participating in the formulation of corporate and business strategies.

Mr. Leung has been the managing director of Alpine Telecom Company Limited since July 2006, where he was responsible for the business development and management, bank financing transaction and day-to-day operations of the company. From 1991 to 2006, Mr. Leung was the managing director of Leung’s Metal Company Limited, which was then engaged in trading of metal materials, where he was responsible for the daily management of the company.

Mr. Leung graduated from Bethel High School in June 1974.

Mr. Leung was a director of the following company(ies) at the time or within 12 months from the time of its/their deregistration. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
Global Metals Trading Limited	Metal trading	11 April 2013	30 August 2013	Cessation of business

The above company(ies) was/were dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance or section 291AA of the Predecessor Companies Ordinance. Mr. Leung confirms that the company(ies) listed above had been inactive and were solvent at the time of deregistration. Mr. Leung further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such company(ies) and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such company(ies).

Independent Non-Executive Directors

Mr. Ko Tsz Kin (高子健) (“Mr. Ko”), aged 48, was appointed as our independent non-executive Director on 11 June 2018. Mr. Ko is also the chairman of the audit committee and a member of each of the nomination committee and remuneration committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ko obtained a Bachelor's degree in administrative studies from York University in Canada in November 1991 and has been a member of Hong Kong Institute of Certified Public Accountants since October 1995 and a member of the Association of Chartered Certified Accountants since January 1996.

Mr. Ko has over 25 years of experience in auditing and accounting. From 1992 to 2015, he joined Robert Chui & Co., Certified Public Accountants, and his last position was the principal of the audit department responsible for the audit and assurance engagements carried out by the firm. Since 2015, Mr. Ko has been practising as a Certified Public Accountant under his own name.

Mr. Ko was a director of the following company(ies) at the time or within 12 months from the time of its/their deregistration. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
Power King Trading Limited	Property investment	30 January 2015	22 May 2015	Cessation of business

The above company(ies) was/were dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance or section 291AA of the Predecessor Companies Ordinance. Mr. Ko confirms that the company(ies) listed above had been inactive and were solvent at the time of deregistration. Mr. Ko further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such company(ies) and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such company(ies).

Mr. Choi Hok Ya (蔡學銳) ("Mr. Choi"), aged 63, was appointed as our independent non-executive Director on 11 June 2018. Mr. Choi is also a member of audit committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Choi obtained a Bachelor's degree in Arts from University of Toronto, Canada, in June 1978 and has over 30 years of experience in manufacturing and management. Upon his graduation, Mr. Choi joined International Carpet Company Limited, responsible for the manufacturing and marketing of the company. Since 1986, Mr. Choi has taken over the company as the managing director.

Mr. Choi was a director of the following companies at the time or within 12 months from the time of their deregistration. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
Lian Far (J.V.) Wood Products Limited	Manufacture of plywood	12 January 2016	27 May 2016	Cessation of business
Milfortune Limited	Construction	23 February 2001	6 July 2001	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

The above company(ies) was/were dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance or section 291AA of the Predecessor Companies Ordinance. Mr. Choi confirms that the company(ies) listed above had been inactive and were solvent at the time of deregistration. Mr. Choi further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such company(ies) and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such company(ies).

Mr. Choi was the director of the following company(ies) which was/were incorporated in Hong Kong and got struck off and dissolved pursuant to section 291 of the Predecessor Companies Ordinance which provides that the Registrar of Companies in Hong Kong can strike a defunct company off the register of companies. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for struck off	Date of struck off
Ample Profit Development Limited	Never commenced business	6 September 2002	7 February 2003
Flyfit Development Limited	Construction	8 March 2002	19 July 2002

Mr. Ng Yau Wah Daniel (吳又華) (“Mr. Ng”), aged 63, was appointed as our independent non-executive Director on 11 June 2018. Mr. Ng is also a chairman of remuneration committee and a member of audit committee and nomination committee and is responsible for providing independent judgment on strategy, policy, performance, accountability, internal control and corporate governance.

Mr. Ng obtained a Bachelor’s degree in Economics from York University, Canada, in 1978 and has over 18 years of experience in business management. In 1989, Mr. Ng was appointed as the executive director of Charter York Real Estate Management Limited, responsible for the daily management of the company. Also in 1989, Mr. Ng was appointed as the executive director of International Carpet Company Limited, responsible for the sales and business development. Since 2008, Mr. Ng is appointed as the executive director of Gayloy Limited, responsible for managing the company’s business. Since 2010, Mr. Ng is appointed the director of Smart Result Limited, responsible for managing the company’s business. Since 2015, Mr. Ng has been appointed as the independent non-executive director of Guangzhou R&F Properties Co., Ltd. (stock code: 02777), a property developer in China and a company listed on the main board of SEHK.

Mr. Ng was a director of the following company(ies) at the time or within 12 months from the time of its/their deregistration. The relevant details are as follows:

Name of the company	Principal business activities three months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reasons for dissolution
Giantluck Development Limited	Investment holdings	16 December 2003	30 April 2004	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

The above company(ies) was/were dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance or section 291AA of the Predecessor Companies Ordinance. Mr. Ng confirms that the company(ies) listed above had been inactive and were solvent at the time of deregistration. Mr. Ng further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such company(ies) and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such company(ies).

Mr. Ng was the director of the following company(ies) which was/were incorporated in Hong Kong and got struck off and dissolved pursuant to section 291 of the Predecessor Companies Ordinance which provides that the Registrar of Companies in Hong Kong can strike a defunct company off the register of companies. The relevant details are as follows:

Name of the company	Nature of business	Date of notice of striking off	Date of struck off
Ample Profit Development Limited	Investment holdings	6 September 2002	7 February 2003
Bravesky Development Limited	Investment holdings	24 May 2002	25 October 2002

Save as disclosed in this Prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in public listed companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in the section headed “Substantial shareholders” and in the section “Further information about our Directors and substantial Shareholders” in Appendix IV to this Prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed in this Prospectus, none of our Directors have any interests in any business apart from business of our Group which competes or is likely to compete, either directly or indirectly, with business of our Group. Please refer to Appendix IV to this Prospectus for further information about our Directors, including details of the interest of our Directors in the Shares and underlying shares of our Company (within the meaning of Part XV of the SFO) and particular of the service contract and remuneration.

Except as disclosed in this Prospectus, each of our Directors has confirmed that there are no other matters relating to his or her appointment as a Director that need to be brought to the attention of the Shareholders and there is no information which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Fung Wai Hang (馮偉恒) (“Mr. Fung”), aged 32, joined our Group as our financial controller in August 2017 and was appointed as our company secretary in October 2017. He is mainly responsible for the overall financial management, daily financial operations and company secretarial duties of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fung obtained a Bachelor's degree in business administration from The Chinese University of Hong Kong in December 2008. He has also been a Certified Public Accountant of Hong Kong since January 2012. Prior to joining our Group, Mr. Fung worked for PricewaterhouseCoopers from September 2008 to August 2017 as a manager mainly responsible for auditing and assurance work.

Mr. Fung does not have any current or past directorships in any listed companies in the last three years.

Mr. Kan Shu Kai Raie (簡樹佳) (“Mr. Kan”), aged 54, joined our Group as the project director on 1 December 2015. He is responsible for the overall project management.

Mr. Kan has over 30 years of experience in the construction industry and hold a higher certificate in building studies awarded by the Vocational Training Council in July 2005. From 1987 to 1990, he served as a project coordinator for Integral Marble Company Limited. Mr. Kan was the project manager of Perfect Marble Company Limited from 1990 to 1995. During the period from 1995 to 2008, Mr. Kan engaged in his own business to provide project management services for sub-contracting work for construction projects. Mr. Kan joined our Group in July 2008 and served as a project director responsible for overall supervision and management of projects until January 2014. In February 2014, Mr. Kan founded Point's Creative Limited where he served as a director and was responsible for business strategies and engaged in management of sub-contracting work of various construction projects. Mr. Kan re-joined our Group in December 2015 and served as a project director.

Mr. Kan does not have any current or past directorships in any listed companies in the last three years.

COMPANY SECRETARY

Mr. Fung was appointed as the company secretary of our Company on 20 October 2017. Mr. Fung is also our financial controller of our Group. He joined our Group in August 2017 and is primarily responsible for the overall financial accounting, business and financial strategies and company secretarial matters of our Group. For further details of Mr. Fung's work experience, please refer to the paragraph headed “Senior management” of this section.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Except for the deviation from code provision A.2.1 of the Corporate Governance Code (“**CG Code**”), our Company have complied with the CG Code and Corporate Governance Report in Appendix 14 to the Listing Rules. Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Mr. Lui is the Chairman and the Chief Executive Officer of our Company. As Mr. Lui is one of our co-founder and has over 35 years of experience in marble and granite outfitting works in Hong Kong, we are of the view that it would be in the best interest of our Group that he continues to take up both role as our Chairman and Chief Executive Officer for effective management and business development of our Group following the Listing. Therefore, our Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. The Board will continue to review and consider splitting the roles of the chairman of the Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

DIRECTORS AND SENIOR MANAGEMENT

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code of each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the Listing.

BOARD COMMITTEES

Audit Committee

Our Group established an audit committee on 11 June 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The audit committee consists of three independent non-executive Directors, namely, Mr. Ko, Mr. Choi and Mr. Ng. Mr. Ko is the chairman of the audit committee.

The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of our Group’s financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

Remuneration Committee

Our Group established a remuneration committee on 11 June 2018 with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of one executive Director and two independent non-executive Directors, namely Mr. Lui, Mr. Ko and Mr. Ng. Mr. Ng is the chairman of the remuneration committee.

The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to our Directors on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

Nomination Committee

Our Group also established a nomination committee on 11 June 2018 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The nomination committee consists of one executive Director and two independent non-executive Directors, namely, Mr. Lui, Mr. Ko and Mr. Ng. Mr. Lui is the chairman of the nomination committee.

The primary function of the nomination committee is to make recommendations to the Board to fill vacancies on the same.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

In compliance with Rule 3A.19 of the Listing Rules, we have appointed WAG Worldsec Corporate Finance Limited as our compliance adviser to provide advisory services to our Company. It is expected that the compliance adviser will, amongst other things, advise our Company with due care and skill on the following matters:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including shares issues and share repurchases;
- where we propose to use the proceeds from the Share Offer in a manner different from that detailed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this Prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

RELATIONSHIP WITH EMPLOYEES

During the Track Record Period, we did not experience any significant problems with employees or other labour disturbances, disputes to our operations and we did not experience any difficulties in the recruitment and retention of experienced staff. We believe we have a good working relationship with our employees. The remuneration payable to the employees includes salaries and allowance.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation paid or payable (basic salary, performance-based compensation and retirement-based contribution) by our Company to our Directors for FY2015, FY2016 and FY2017 were approximately HK\$2.3 million and HK\$3.3 million and HK\$4.3 million, respectively.

The five highest paid individuals of our Group for FY2015, FY2016 and FY2017, included two, two and two Directors, respectively, whose compensation paid or payable are included in the aggregate amount of compensation paid/payable from our Company to the relevant Directors set out above. For FY2015, FY2016 and FY2017, the aggregate amount of compensation paid or payable (basic salary, performance-based compensation and retirement-based contribution) for the remaining three, three and three highest paid individuals who are neither a Director nor chief executive of our Group were HK\$1.6 million, HK\$2.1 million and HK\$2.3 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Our Executive Directors are also employees of our Company and receive, in their capacity as employees of our Company, compensation in the form of salaries and other allowances and benefits in kind. Our Company reimburses our Directors for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in relation to the operations of our Company.

Our Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of our Group. Details of the terms of the service agreements are set out in the section headed "C. Further information about our Directors and substantial Shareholders — 2. Directors' remuneration" in Appendix IV to this Prospectus.

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five largest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors, past Directors or the five highest paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Group. Our Directors estimate that under the current proposed arrangement, the aggregate basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors will be approximately HK\$4.9 million for the year ending 31 December 2018.

None of our Directors had waived or agreed to waive any remuneration during the Track Record Period. Save as disclosed in this paragraph headed "Compensation of Directors and senior management" in this section, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors and the five highest paid individuals during the Track Record Period.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Our Directors consider the purpose of the Share Option Scheme is to reward the participants defined under the Share Option Scheme for their past contribution to the success of our Group and to provide incentive to them to further contribute to our Group. The principal terms of the Share Option Scheme are summarised under the section headed "Share Option Scheme" in Appendix IV to this Prospectus.

RETIREMENT BENEFITS SCHEME

Our Group participates in the mandatory provident fund scheme for our employees prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, in Hong Kong. Our Group has paid the relevant contributions in accordance with the aforesaid laws and regulations throughout the Track Record Period and up to the Latest Practicable Date. Save as the aforesaid, we have not participated in any other pension schemes.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following completion of the Share Offer and Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares to be issued upon the exercise of any option(s) which may be granted under the Share Option Scheme), the following persons (not being a director or the chief executives of our Company) will have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Substantial Shareholder	Capacity/Nature of interest	Total number of Share(s) held <i>(Note 1)</i>	Approximate percentage of interest in our Company's issued share capital
Mr. Lui	Interest in controlled corporation <i>(Note 2)</i>	900,000,000 Shares (L)	75%
PMG Investments	Beneficial owner	900,000,000 Shares (L)	75%

Notes:

- (1) The Letter "L" denotes the person's long position in the relevant Shares.
- (2) The entire issued share capital of PMG Investments is legally and beneficially owned by Mr. Lui. Accordingly, Mr. Lui is deemed to be interested in 900,000,000 Shares held by PMG Investments by virtue of the SFO.

For details of our Director's interests in Shares immediately following the Listing, please refer to the section headed "C. Further Information about our Directors and Substantial Shareholders — 3. Disclosure of Directors' Interests" in Appendix IV to this Prospectus. Save as disclosed herein, our Directors are not aware of any person (who is not a Director or chief executive of our Company) who will, immediately upon completion of the Listing, have an interest or short position in our shares or underlying shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or be directly or indirectly interested in 10.0% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of our Group. Our Directors are not aware of any arrangement that may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

Our Company' authorised and issued share capital immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares to be issued upon the exercise of options to be granted under the Share Option Scheme) or the Over-allotment Option will be as follows:

	Number of Shares	Nominal Value <i>(in HK\$)</i>
Authorised share capital	3,000,000,000	30,000,000
Shares issued and to be issued, fully paid or credited as fully paid:		
Shares in issue at the date of this Prospectus	3	0.03
Shares to be issued pursuant to the Capitalisation Issue	899,999,997	8,999,999.97
Shares to be issued pursuant to the Share Offer	300,000,000	3,000,000
 Total	 1,200,000,000	 12,000,000

Ranking

The Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with each other, and will qualify for all dividends, income and other distributions declared, made or paid and any other rights and benefits attaching or accruing to the Shares following the completion of the Share Offer.

Share Option Scheme

We have conditionally adopted the Share Option Scheme whereby certain eligible participants (including, without limitation, directors, employees, advisers, consultants, suppliers, customers and agents of our Company or our subsidiaries) may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix IV to this Prospectus.

General Mandate to Issue Shares

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot, issue and deal with additional Shares and to make or grant offers, agreements, options or securities which will or might require the exercise of such powers, provided that the aggregate nominal amount of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by our Directors, otherwise than pursuant to a rights issue, or upon the exercise of rights of subscription or conversion under any outstanding warrants to subscribe for Shares or any securities which are convertible into Shares or any scrip dividend in lieu of the whole or part of a dividend on the Shares, shall not exceed the aggregate of 20% of the aggregate nominal amount of the Shares in issue as at the date on which dealings in the Shares commence on the Stock Exchange, plus the aggregate nominal value of the Shares repurchased by our Company under the general mandate to repurchase Shares referred to below.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by law to be held; and
- (iii) the revocation or variation of the authority given by an ordinary resolution of our Shareholders.

For further details of this mandate, see the section headed “A. Further information about our Company — 4. Written resolutions of the sole Shareholder dated 11 June 2018 and 14 June 2018” in Appendix IV to this Prospectus.

General Mandate to Repurchase Shares

Our Directors have been granted a general unconditional repurchase mandate to exercise all the powers of our Company to make on-market repurchases of such number of Shares which shall not exceed 10% of the aggregate nominal amount of the share capital of our Company in issue as at the date on which dealings in the Shares commence on the Stock Exchange. On the basis of 1,200,000,000 Shares in issue, immediately after the Share Offer and the Capitalisation Issue (but without taking into any Shares to be issued upon the exercise of options to be granted under the Share Option Scheme) or the Over-allotment Option, the maximum number of Shares which can be repurchased pursuant to this repurchase mandate will be 120,000,000 Shares, representing approximately (but not more than) 10% of the issued Shares. This repurchase mandate only relates to on-market share repurchases (within the meaning of the Hong Kong Code on Share Buy-back) and will expire at the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by law to be held; and
- (iii) the revocation or variation of the authority given by an ordinary resolution of our Shareholders.

As at the Latest Practicable Date, our Company has no outstanding convertible debt securities.

UNDERTAKINGS BY OUR COMPANY

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that our Company will not issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which dealings in the Shares commence on the Stock Exchange (whether or not such issues of Shares or securities will be completed within six months from the commencement of dealing), except in the circumstances provided under Rule 10.08 of the Listing Rules.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles of Association. For details, please see the section headed “2. Articles of Association — (e) Meetings of members — (iv) Notices of meetings and business to be conducted” in Appendix III to this Prospectus.

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

REASONS FOR LISTING

Our Directors believe that the Listing is strategically critical to our long-term growth as it will (i) provide us with avenues to raise capital for our expansion plan; and (ii) enhance our corporate profile, brand recognition and credibility which will facilitate the implementation of our business strategies for continued growth and further business expansion.

Our finance costs for the FY2015, FY2016 and FY2017 amounted to HK\$4.9 million, HK\$4.3 million, and HK\$4.7 million, and represented over 8%, 10% and 12% of our operating profit from continuing operations in the corresponding period, respectively. We also had a high gearing ratio of 6,202.7%, 205.7%, 278.5% and 253.1% as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. Our Directors consider that it is difficult for our Group to obtain further debt financing with terms that are commercially acceptable to us given such high gearing ratio and it is in the interest of our Group to conduct equity financing as our business does not have large amount of fixed asset that can be sufficiently used as collateral and does not have to provide personal guarantees as security. With the net proceeds to be received by us from the Share Offer, our gearing ratio upon listing is expected to decrease and our gearing level is expected to improve as compared to that as at 31 December 2015, 2016 and 2017.

Our Directors consider that a combination of equity financing and debt financing will be more beneficial to our Group and can maximise the return for our Shareholders as the net proceeds from the Share Offer will (i) reduce our Company's gearing ratio and enhance our capacity to raise funds from debt financing in the future if required; and (ii) provide us with the necessary additional financial resources to achieve our business strategies.

While bank borrowings can improve our working capital temporarily, the net proceeds expected to be received by us from the Share Offer are necessary for the implementation of our Group's future plans. Our contract works usually require significant working capital to finance preliminary works as well as purchase of raw materials in early stage of a project. For each contract work we undertake, we generally pay a considerable sum for the purchase of raw material and other costs involved to meet the project requirements. Our customers do not usually pay any upfront payment or deposits and we normally receive progress payment until our works are certified by our customer or its authorised persons in later stage, and as such, our working capital is mostly tied up at the early stage or during the commencement stage of contract works. Our capacity to take up new projects is largely limited by our capital resources to fund the start-up cost of our project. For each of FY2015, FY2016 and FY2017, we declined tender invitations due to insufficient capital resources with estimated contract value of around HK\$250 million, HK\$170 million and HK\$110 million respectively. Without the proceeds from the Share Offer, our Group will be required to continue to finance the awarded projects by a combination of cash generated from operations, unutilized banking facilities and advance from related parties; and will not be able to undertake additional potential projects and expand the scale of our operations as we planned in the event we fail to obtain the require funding from the abovementioned sources.

In addition, our Directors believe that having a listing status can enhance our corporate profile brand recognition and credibility. This will (i) have a favourable impact on our tendering process for new projects as we would become a publicly recognised brand in the market and due to improvement in our Group's creditworthiness and financial position; (ii) strengthen our relationship with our customers, suppliers and subcontractors based on higher confidence in our financial condition shown in our

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

published financial reports and also due to more stringent disclosures and regulatory supervision as a listed company; (iii) promote our brand to potential new customers by having greater market presence; (iv) extend the credit periods granted by certain of our suppliers and subcontractors due to the improvement in our creditworthiness; (v) increase our competitiveness against our competitors that have not been listed; and (vi) increase our bargaining power in obtaining better borrowing terms and credit limit from the bank due to improvement in our risk profile arising from improved capitalisation, better market credibility, tighter regulatory supervision and access to the capital market.

FUTURE PLANS

Please refer to the section headed “Business — Business strategies” in this Prospectus for detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to be received by us from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$0.45 per Offer Share, being the mid point of the indicative Offer Price range) will be approximately HK\$87.2 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- approximately HK\$69.3 million or approximately 79.5% of the net proceeds to be used for financing the start-up costs for awarded or potential projects that we have submitted tender as at the Latest Practicable Date. During the Track Record Period, we have declined tender invitations when we expect that we do not have sufficient capital resources to fund the start-up cost of new projects. During the Track Record Period, start-up costs of our projects, comprising cost of raw materials, fabrication and transportation costs, were funded by our own capital and borrowings which, in average accounted for approximately 41.7% of our total cost of sales for the Track Record Period. Our Directors consider that we can undertake more projects or more sizable projects with the net proceeds from the Share Offer to finance start-up costs of our stone supply and installation projects. In this connection, we plan to apply the proceeds to the following awarded or potential projects that we have submitted tender as at the Latest Practicable Date:

Awarded projects

Project	Nature of project	Awarded contract sum <i>HK\$' million</i>	Estimated project commencement date <i>(Note 1)</i>	Estimated amount of start-up cost <i>HK\$' million</i> <i>(Note 2)</i>
Project 26	Commercial project in Macau	43.0	7/2018	12.4
Project 27	Residential project in Tai Po	33.5	7/2018	9.8
Project 28	Residential project at the Peak	59.1	10/2018	18.2

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

Potential projects

Project	Nature of project	Tender amount <i>HK\$' million</i>	Estimated project commencement date <i>(Note 1)</i>	Estimated amount of start-up cost <i>HK\$' million</i> <i>(Note 2)</i>
Project A	Luxurious residential project at the Peak	98.4	12/2018	26.8
Project B	Hotel project on Lantau Island	26.9	1/2019	7.4
Project C	Hotel project on Lantau Island	35.6	1/2019	10.7

Notes:

1. The estimated project commencement date is based on the management's estimation having made reasonable enquiries with the potential customers. The actual project commencement date may be adjusted by the potential customers subject to tendering process, tendering result and changes in project requirement.
2. Estimated start-up cost is estimated by the management based on the average of start-up cost of our projects to total cost of sales for the Track Record Period, and the budgeted cost of each project awarded.

As at Latest Practicable Date, in addition to the potential projects mentioned above, namely Project A, Project B and Project C, we have submitted 13 tenders within the past six months with a total estimated contract sum of approximately HK\$309.0 million which the tendering process is still on-going and the outcome has not yet been released. Based on our management's assessment, our Directors believe that we have a relatively higher chance of securing such potential projects comparing to the other on-going tenders. In the event that we could not secure such potential projects, we will apply the net proceeds to finance the start-up costs of the next projects we secured from those tenders.

- approximately HK\$3.1 million or approximately 3.6% of the net proceeds to be used for strengthening our project management team in the coming two years, of which (i) approximately HK\$2.0 million will be used for recruitment of additional workforce during year 2018, including one project manager, one site manager, two site coordinators and one quantity surveyor; and (ii) approximately HK\$1.1 million for the acquisition of three motor vehicles. We plan to recruit personnel with 5 to 10 years of relevant working experience as our project manager and 3 to 5 years of relevant working experience as our site manager, site coordinators and quantity surveyor. All of them are expected to have obtained higher diploma or above in building studies.
- approximately HK\$5.2 million or approximately 5.9% of the net proceeds to be used for enhancing our services and increasing our sales and marketing efforts in the coming two years, of which:
 - approximately HK\$3.6 million or approximately 4.1% will be used for relocating our office and establishing a showroom to showcase stone samples to our customers;
 - approximately HK\$0.9 million or approximately 1.0% will be used for implementing an auto-CAD system and recruiting in-house draftsmen; and

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

- approximately HK\$0.7 million or approximately 0.8% will be used for recruiting additional sales representatives;
- approximately HK\$2.6 million or approximately 3.0% of the net proceeds to be used to implement a computerised ERP system and recruit two additional technology staff to support the new ERP system in the coming two years; and
- approximately HK\$7.0 million or approximately 8.0% of the net proceeds to repay outstanding trust receipt loan from a bank bearing interest at 3% per annum over HIBOR with maturities of up to 270 days. The trust receipt loan outstanding as at 30 April 2018 that we intend to repay with the net proceeds will be matured in July 2018.

If the Offer Price is fixed at the high-end of the indicative range of the Offer Price, being HK\$0.50 per Offer Share, the net proceeds we receive from the Share Offer will increase by approximately HK\$14.0 million. We intend to apply the additional net proceeds for the above purposes on a pro-rata basis. If the Offer Price is set at the low-end of the indicative range of the Offer Price, being HK\$0.40 per Offer Share, the net proceeds we receive from the Share Offer will decrease by approximately HK\$14.0 million. We intend to reduce the net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds will increase to approximately HK\$122.2 million, assuming an Offer Price of HK\$0.50 per Offer Share, being the high-end of the proposed Offer Price range. In such event, we intend to apply (i) approximately HK\$97.2 million, or 79.5%, for financing the start-up costs of projects awarded in the future; (ii) approximately HK\$3.8 million, or 3.1%, for strengthening our project management team; (iii) approximately HK\$6.4 million, or 5.2%, for enhancing our services and increasing our sales and marketing efforts; (iv) approximately HK\$3.2 million, or 2.6%, for implementing a computerised ERP system and recruiting two additional technology staff; (v) approximately HK\$8.5 million, or 7.0%, for repayment of outstanding trust receipt loan; and (vi) the remainder of approximately HK\$3.1 million, or 2.6%, for our general working capital.

To the extent that the net proceeds of the Share Offer are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licenced banks and/or financial institutions.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Huajin Securities (International) Limited
Pacific Foundation Securities Limited
Aristo Securities Limited
Quasar Securities Co., Limited
Alpha Financial Group Limited
Frontpage Capital Limited
I Win Securities Limited
Lego Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offering Underwriting Agreement

Pursuant to the Public Offering Underwriting Agreement, our Company is offering 30,000,000 Public Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this Prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this Prospectus (including an additional 45,000,000 Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Public Offering Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Joint Bookrunners (for themselves and on behalf of the other Underwriters)),

the Public Offer Underwriter has agreed to subscribe for, or procure subscribers for, the Public Offer Shares which are being offered but are not taken up under the Public Offer, on the terms and conditions set out in this Prospectus, the Application Forms and the Public Offering Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters), the Share Offer will not proceed and will lapse.

The Public Offering Underwriting Agreement is conditional upon and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

UNDERWRITING

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares will be subject to termination by notice in writing to our Company from the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Bookrunners
 - (i) that any statement contained in any of this Prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
 - (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Public Offering Underwriting Agreement or the Placing Underwriting Agreement (in each case, other than on the part of any of the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the Sole Sponsor); or
 - (iv) any event, act or omission which gives or is reasonably likely to give rise to any liability of any of our Company, our executive Directors and the Controlling Shareholders (the “**Warrantors**”) pursuant to the indemnities given by them under the Public Offering Underwriting Agreement or under the Placing Underwriting Agreement; or
 - (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group (“**Group Company**”); or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Public Offering Underwriting Agreement; or
 - (vii) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

UNDERWRITING

- (viii) our Company withdraws any of the Relevant Documents or the Share Offer; or
 - (ix) any person (other than the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Sole Sponsor) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
 - (x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
 - (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management member of the Group as set out in the section headed “Directors and Senior Management” in this Prospectus; or
 - (xii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) in its sole absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or

UNDERWRITING

- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Nasdaq Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority (“Law(s)”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the Cayman Islands (or any member thereof) or any other jurisdictions relevant to any Group Company or the Share Offer (the “Specific Jurisdictions”); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this Prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or
- (x) any of the Directors and senior management member of our Company as set out in the section headed “Directors and Senior Management” of this Prospectus being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his or her office; or

UNDERWRITING

- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Share Offer; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Share Offer; or
- (xv) non-compliance of this Prospectus and the other Relevant Documents or any aspect of the Share Offer with the Listing Rules or any other Laws applicable to the Share Offer; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this Prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters):

- (a) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or position or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Public Offering Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Public Offering Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

UNDERWRITING

Undertakings given to the Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Share Offer, the Over-allotment Option or the Stock Borrowing Agreement, it shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings 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 our securities that it is shown to beneficially own in this Prospectus (the “Relevant Shares”); or
- (b) in the period of a further 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 Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this Prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any securities in our Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

UNDERWRITING

Undertakings given to the Public Offer Underwriter

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriter that except pursuant to the Share Offer (including pursuant to the Over-allotment Option) and the exercise of any options granted or to be granted under the Share Option Scheme, during the period commencing on the date of the Public Offering Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriter) (such consent will not be unreasonably withheld or delayed) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

UNDERWRITING

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “Second Six-Month Period”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agree to or announce any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken jointly and severally to each of our Company, the Stock Exchange, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the other Public Offer Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) (such consent will not be unreasonably withheld or delayed):

- (i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) shall not,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or
 - (b) 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; or
 - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or

UNDERWRITING

- (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it/he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he/she would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “Controlling Shareholders” (as defined in the Listing Rules) of our Company;
- (iii) in the event that it/he/she enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he/she shall take all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) it/he/she shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the other Public Offer Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this Prospectus and ending on the date which is twelve months from the Listing Date, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it/he/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 Sponsor in writing of such indications.

Underwriters’ interests in our Group

Save for their respective obligations under the Public Offering Underwriting Agreement and the Placing Underwriting Agreement or as otherwise disclosed in this Prospectus, as of the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or

UNDERWRITING

securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Public Offering Underwriting Agreement and Placing Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Placing

Placing

In connection with the Placing, we expect to enter into the Placing Underwriting Agreement on the Price Determination Date with, among others, the Placing Underwriter. Under the Placing Underwriting Agreement, the Placing Underwriter would, subject to certain conditions, severally and not jointly, agree to purchase the Placing Shares or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. Please refer to the section headed “Structure and conditions of the Share Offer — The Placing” in this Prospectus.

Under the Placing Underwriting Agreement, we intend to grant to the Placing Underwriter the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Joint Bookrunners on behalf of the Placing Underwriter from the date of the Placing Underwriting Agreement until 30 days from the last day for the lodging of applications under the Public Offer to require us to issue and allot up to an aggregate of 45,000,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Share Offer and at the Offer Price, to cover, among other things, any over-allocations in the Placing, if any.

UNDERWRITING

Total Commission and Expenses

We will pay the Joint Bookrunners (for themselves and on behalf of the other Underwriters) an underwriting commission of 6.5% of the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer (excluding any Placing Shares reallocated to the Public Offer and any Public Offer Shares reallocated to the Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Joint Bookrunners and the relevant Placing Underwriters, but not the Public Offer Underwriters.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$0.45 (being the mid-point of the stated range of the Offer Price between HK\$0.40 and HK\$0.50), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Share Offer, are estimated to amount in aggregate to HK\$47.8 million in total and are payable by us.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Joint Bookrunners, the Sole Sponsor and the Public Offer Underwriter (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offering Underwriting Agreement and any breach by us of the Public Offering Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This Prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer comprises:

- the Public Offer of initially 30,000,000 Offer Shares (subject to adjustments as mentioned below) in Hong Kong as described below in the paragraph headed “The Public Offer” in this section; and
- the Placing of initially 270,000,000 Offer Shares (subject to adjustments and the Over-allotment Option as described below) outside the United States (including to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may either:

- apply for the Public Offer Shares under the Public Offer; or
- apply for or indicate an interest for the Placing Shares under the Placing,

but may not do both.

The 300,000,000 Offer Shares in the Share Offer will represent 25% of our enlarged share capital immediately after the completion of the Share Offer, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of our enlarged share capital immediately following the completion of the Share Offer.

References to applications, application forms, application monies or procedure for applications relate solely to the Public Offer.

THE PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 30,000,000 Offer Shares, representing 10% of the total number of Offer Shares initially available under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the number of Offer Shares offered under the Public Offer will represent approximately 2.5% of our enlarged issued share capital immediately after completion of the Share Offer, assuming the Over-allotment Option is not exercised.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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 that regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set forth below in “Conditions of the Share Offer”.

Allocation

Allocation of Public Offer Shares to investors under the Public Offer will be based 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. We may, if necessary, allocate the Public Offer Shares on the basis 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.

For allocation purposes only, the total number of Offer Shares available under the Public Offer is to be divided equally into two pools:

- **Pool A:** The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable); and
- **Pool B:** The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). 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 under the Public Offer and any application for more than 15,000,000 Public Offer Shares will be rejected.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, if the number of Offer Shares validly applied for under the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Public Offer, the Offer Shares will be reallocated to the Public Offer from the Placing. As a result of such reallocation, the total number of Public Offer Shares will be increased to 90,000,000 Offer Shares (in the case of (i)), 120,000,000 Offer Shares (in the case of (ii)) and 150,000,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option), respectively.

In each case, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as the Joint Bookrunners deems appropriate. In addition, the Joint Bookrunners shall have the discretion to reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

In addition, the Joint Bookrunners 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 in the circumstance that the Placing Shares are undersubscribed or other than pursuant to the clawback mechanism above, the total number of the Offer Shares available under the Public Offer following such reallocation shall be not more than 60,000,000 Offer Shares (representing approximately 20% of the total number of Offer Shares initially available under the Share Offer), and the final Offer Price shall be fixed at the low-end of the indicative offer price range (i.e. HK\$0.40 per Offer Share) stated in this prospectus.

If the Public Offer is not fully subscribed for, the Joint Bookrunners has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deems appropriate.

Applications

Each applicant under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has 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 Placing 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) or it has been or will be placed or allocated Placing Shares under the Placing.

Applicants under the Public Offer are required to pay, on application, maximum price of HK\$0.50 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% on each Offer Share, amounting to a total of HK\$2,525.20 for one board lot of 5,000 Shares. If the Offer Price, as finally determined on the Price Determination Date in the manner as described below in the paragraph headed "Pricing and Allocation", is less than the maximum price of HK\$0.50 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, see the section headed "How to apply for the Public Offer Shares" in this Prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PLACING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the Placing 270,000,000 Offer Shares, representing 90% of the Offer Shares under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the number of Offer Shares offered under the Placing will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Share Offer, assuming the Over-allotment Option is not exercised.

Allocation

The Placing Shares will conditionally be offered to selected professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. 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. Prospective professional, institutional and other investors will be required to specify the number of the Placing 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 the Price Determination Date.

Allocation of the Placing Shares pursuant to the Placing will be determined by the Joint Bookrunners 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 its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Bookrunners (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 Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any applications of Public Offer Shares under the Public Offer.

Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described above in the paragraph headed “The Public Offer — Reallocation” in this section or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

OVER-ALLOTMENT OPTION

In connection with the Share Offer, it is expected that we will grant the Over-allotment Option to the Placing Underwriter.

Pursuant to the Over-allotment Option, the Placing Underwriter will have the right, exercisable by the Joint Bookrunners (on behalf of the Placing Underwriters) at any time within 30 days from the last date for lodging applications under the Public Offer, to require the Company to issue up to 45,000,000 Shares, representing 15% of the Offer Shares initially available under the Share Offer, at the Offer Price under the Placing to, among other things (such as effecting the permitted stabilising actions as set out in the paragraph headed “Stabilisation” in this section below), cover over-allocations in the Placing, if any.

If the Over-allotment Option is exercised in full, the additional Shares to be issued pursuant thereto will represent approximately 3.6% of our enlarged issued share capital immediately following the completion of the Share Offer. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Share Offer, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any persons acting for it, to conduct any such stabilising action. Such stabilising action, if taken, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Public Offer.

Stabilisation action permitted in Hong Kong under the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our 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 our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Specifically, prospective applicants for and investors in 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 as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market, 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 30th day after the last day for lodging applications under the Public Offer. After this date, when no further action may be taken to support the price of the Shares, 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 by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Share Offer, the Stabilising Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Share Offer, the Stabilising Manager may choose to enter into an agreement with PMG Investments, a Controlling Shareholder of our Company, to borrow, whether on its own or through its affiliates, up to 45,000,000 Shares, representing 15% of the total number of the Offer Shares initially available for the Share Offer. The stock borrowing arrangement under such an agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

- such stock borrowing arrangement is fully described in this Prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from PMG Investments by the Stabilising Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to PMG Investments or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- no payment will be made to PMG Investments by the Stabilising Manager (or any person acting for it) in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 25 June 2018, and in any event, not later than 29 June 2018.

The Offer Price will not be more than HK\$0.50 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Public Offer as further explained below. If you apply for the Offer Shares under the Public Offer, you must pay the maximum price of HK\$0.50 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$0.50, we will refund the respective difference, including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see the section headed “How to apply for the Public Offer Shares” in this Prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the Placing. Prospective professional and institutional 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 around, the last day for lodging applications under the Public Offer.

The Joint Bookrunners (on behalf of the Underwriters) may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price Range below that stated in this Prospectus prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Public Offer publish a notice on our website at www.anchorstone.com.hk and the website of the Stock Exchange at www.hkexnews.hk (the contents of the website do not form a part of this Prospectus). Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised offer price range.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price Range may not be made until the day which is the last day for lodging applications under the Public Offer. Such notice will also confirm or revise, as appropriate, the working capital statement, the Share Offer statistics as currently set out in the section headed “Summary” in this Prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with the Company and the Joint Bookrunners (on behalf of the Underwriters) will under no circumstances be set outside the Offer Price Range as stated in this Prospectus.

If you have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price Range is reduced, applicants 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.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at its discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer (assuming the Over-allotment Option is not exercised).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The final Offer Price, the level of indication of interest in the Placing, the basis of allotment of Offer Shares available under the Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer are expected to be made available in a variety of channels in the manner described in paragraph headed “How to apply for the Public Offer Shares — 11. Publication of results” in this Prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Shares in issue and to be issued as described in this Prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- the Offer Price having been agreed between us and the Joint Bookrunners (on behalf the Underwriters);
- the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Public Offer Underwriters under the Public Offering Underwriting Agreement and the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming 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 Offering Underwriting Agreement and/or the Placing Underwriting Agreement, as the case may be (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 30th day after the date of this Prospectus.

If, for any reason, the Offer Price is not agreed between us and the Joint Bookrunners (on behalf of the Underwriters) on or before Friday, 29 June 2018, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company on our website at www.anchorstone.com.hk and the website of the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in “How to apply for the Public Offer Shares — 13. Refund of application monies” in this Prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

UNDERWRITING AGREEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offering Underwriting Agreement and is subject to, among other conditions under the Public Offering Underwriting Agreement, us and the Joint Bookrunners (on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

We expect to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date.

Certain terms of the underwriting arrangements, the Public Offering Underwriting Agreement and the Placing Underwriting Agreement, are summarised in the section headed “Underwriting” in this Prospectus.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 4 July 2018, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 4 July 2018.

The Shares will be traded in board lots of 5,000 Shares each.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** at 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 Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of China.

If you apply online through the **HK eIPO White Form**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** for the Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; or
- 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.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 June 2018 until 12:00 noon on Monday, 25 June 2018 from:

- (i) any of the following offices of the **Public Offer Underwriters**:

Huajin Securities (International) Limited	Suite 1101, 11/F, Champion Tower, 3 Garden Road, Central, Hong Kong
Pacific Foundation Securities Limited	11/F, New World Tower II, 16–18 Queen's Road Central, Hong Kong
Aristo Securities Limited	Room 101, 1/F, On Hong Commercial Building, 145 Hennessy Road, Wan Chai, Hong Kong
Quasar Securities Co., Limited	Unit A, 12/F, Harbour Commercial Building, 122– 124 Connaught Road Central, Hong Kong
Alpha Financial Group Limited	Room A, 17/F, Fortune House 61, Connaught Road Central, Central, Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Frontpage Capital Limited	26/F, Siu On Centre, 188 Lockhart Road, Wan Chai, Hong Kong
I Win Securities Limited	Room 1916, Hong Kong Plaza, 188 Connaught Road West, Sai Wan, Hong Kong
Lego Securities Limited	Room 301, 3/F, China Building, 29 Queen's Road Central, Central, Hong Kong

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

	Branch name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
Kowloon	Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate
New Territories	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 June 2018 until 12:00 noon on Monday, 25 June 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — ANCHORSTONE PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Wednesday, 20 June 2018	—	9:00 a.m. to 5:00 p.m.
Thursday, 21 June 2018	—	9:00 a.m. to 5:00 p.m.
Friday, 22 June 2018	—	9:00 a.m. to 5:00 p.m.
Saturday, 23 June 2018	—	9:00 a.m. to 1:00 p.m.
Monday, 25 June 2018	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 25 June 2018, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Applications Lists" below in this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By completing and submitting an Application Form or applying through the **HK eIPO White Form**, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any 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 Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Memorandum of Association and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this Prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, the Sole Sponsor, our Hong Kong Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (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 Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application 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 e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Joint Bookrunners and the Public Offer Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 the paragraph headed “2. Who Can Apply” above in this section, may apply through the **HK eIPO White Form** for the Public 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** 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**.

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 9:00 a.m. on Wednesday, 20 June 2018 until 11:30 a.m. on Monday, 25 June 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 25 June 2018 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the applications lists” below in this section.

No Multiple Applications

If you apply by means of the **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** 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 the **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (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 Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise 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 Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);
 - agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of 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 Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for 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, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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.

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 5,000 Public Offer Shares. Instructions for more than 5,000 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:

Wednesday, 20 June 2018	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 21 June 2018	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 22 June 2018	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 23 June 2018	—	8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, 25 June 2018	—	8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 20 June 2018 until 12:00 noon on Monday, 25 June 2018 (24 hours daily, except on the last application day).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 25 June 2018, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” below in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners 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** will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 25 June 2018.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for 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** and **YELLOW** Application Form or through the **HK eIPO White Form** in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and conditions of the Share Offer — Pricing and allocation” in this Prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 June 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 25 June 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this Prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 3 July 2018 on our website (www.anchorstone.com.hk) and the Stock Exchange’s website (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 website (www.anchorstone.com.hk) and the Stock Exchange’s website (www.hkexnews.hk) by no later than 8:00 a.m. on Tuesday, 3 July 2018;
- from the designated results of allocations website (www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 3 July 2018 to 12:00 midnight on Monday, 9 July 2018;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 3 July 2018 to Friday, 6 July 2018 on a Business Day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 3 July 2018 to Thursday, 5 July 2018 at all the receiving bank designated branches.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED 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 Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** 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 Joint Bookrunners believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 15,000,000 Public Offer Shares.

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\$0.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 3 July 2018.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 3 July 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 4 July 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, 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 Tuesday, 3 July 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 Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 3 July 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. 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 Tuesday, 3 July 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participants stock account as stated in your Application Form on Tuesday, 3 July 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "11. Publication of results" above in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 3 July 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong 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 Tuesday, 3 July 2018, or such other date as notified by our Company as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 3 July 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 3 July 2018, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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 headed “11. Publication of Results” in the section above on Tuesday, 3 July 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 3 July 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Tuesday, 3 July 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 3 July 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE
DIRECTORS OF ANCHORSTONE HOLDINGS LIMITED AND WAG WORLDSEC
CORPORATE FINANCE LIMITED**

INTRODUCTION

We report on the historical financial information of Anchorstone Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-47, which comprises the combined balance sheets as at 31 December 2015, 2016 and 2017, the balance sheets of the Company as at 31 December 2016 and 2017 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (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-47 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 20 June 2018 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

DIRECTORS' RESPONSIBILITY FOR THE 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 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's 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 accountant considers internal control relevant to the entity's 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 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 purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2016 and 2017 and the combined financial position of the Group as at 31 December 2015, 2016 and 2017 and of its combined financial performance and its combined 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 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") 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 27 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

20 June 2018

Set out below is the Historical Financial Information which forms an integral part of this accountant's report. The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements"). The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Continuing operations				
Revenue	6	213,303	222,141	224,793
Cost of sales	8	<u>(139,910)</u>	<u>(158,243)</u>	<u>(161,826)</u>
Gross profit		73,393	63,898	62,967
Other income and other gains, net	7	52	100	87
Administrative expenses	8	<u>(14,816)</u>	<u>(24,406)</u>	<u>(25,830)</u>
Operating profit		58,629	39,592	37,224
Finance income	11	187	190	215
Finance costs	11	<u>(4,902)</u>	<u>(4,281)</u>	<u>(4,736)</u>
Profit before income tax		53,914	35,501	32,703
Income tax expense	12	<u>(9,728)</u>	<u>(8,130)</u>	<u>(7,429)</u>
Profit for the year from continuing operations		44,186	27,371	25,274
Discontinued operations				
Loss for the year from discontinued operations	13	<u>(404)</u>	<u>—</u>	<u>—</u>
Profit for the year		<u>43,782</u>	<u>27,371</u>	<u>25,274</u>
Other comprehensive income for the year		<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year		<u>43,782</u>	<u>27,371</u>	<u>25,274</u>
Earnings per share for profit from continuing and discontinued operations attributable to owners of the Company for the year (expressed in HK\$ per share)				
Basic earnings per share	14			
From continuing operations		N/A	N/A	N/A
From discontinued operations		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED BALANCE SHEETS

	Note	As at 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
ASSETS				
Non-current asset				
Property and equipment	15	481	1,196	873
Total non-current assets		481	1,196	873
Current assets				
Inventories	17	3,353	—	—
Trade and retention receivables	18	19,569	75,408	89,470
Deposits, prepayments and other receivables	19	4,530	5,462	20,761
Amounts due from customers for contract works	21	54,217	98,897	55,712
Amount due from a related party	28	80,542	40,536	—
Pledged bank deposits	20	11,012	11,028	19,080
Cash and bank balances	20	723	350	503
Total current assets		173,946	231,681	185,526
Total assets		174,427	232,877	186,399
EQUITY				
Combined capital	26	(14,000)	(14,000)	(14,000)
Reserves		11,994	(41,117)	(23,391)
Total equity		(2,006)	(55,117)	(37,391)
LIABILITIES				
Non-current liability				
Obligations under finance leases — due after one year	24	(288)	(873)	(613)
Total non-current liabilities		(288)	(873)	(613)
Current liabilities				
Trade and retention payables	22	(32,201)	(47,506)	(32,947)
Accruals and other payables	23	(3,475)	(10,992)	(9,784)
Amounts due to customers for contract works	21	(136)	(1,713)	(939)
Amount due to a related party	28	—	—	(391)
Obligations under finance leases — due within one year	24	(144)	(299)	(260)
Bank borrowings	25	(123,994)	(112,203)	(102,886)
Tax payables		(12,183)	(4,174)	(1,188)
Total current liabilities		(172,133)	(176,887)	(148,395)
Total liabilities		(172,421)	(177,760)	(149,008)
Total equity and liabilities		(174,427)	(232,877)	(186,399)

BALANCE SHEETS OF THE COMPANY

	As at 31 December 2016 HK\$	As at 31 December 2017 HK\$
Current asset		
Investment in a subsidiary	----- 8	----- 8
Total asset	<u>8</u>	<u>8</u>
EQUITY		
Share capital	(—)	(—)
Reserves	----- —	----- —
Total equity	<u>(—)</u>	<u>(—)</u>
Current liability		
Amount due to a subsidiary	----- (8)	----- (8)
Total liability	<u>(8)</u>	<u>(8)</u>
Total equity and liability	<u>(8)</u>	<u>(8)</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company			
	Combined	Capital	Retained	Total
	capital	reserve	earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 December 2015				
At 1 January 2015	14,000	(25,740)	44,964	33,224
Profit for the year	—	—	43,782	43,782
Distribution to owners of the Company recognised in equity				
Dividend relating to 2015 (<i>Note 27</i>)	—	—	(75,000)	(75,000)
Balance at 31 December 2015	<u>14,000</u>	<u>(25,740)</u>	<u>13,746</u>	<u>2,006</u>
For the year ended 31 December 2016				
At 1 January 2016	14,000	(25,740)	13,746	2,006
Profit for the year	—	—	27,371	27,371
Contribution from shareholder (<i>Note 26</i>)	—	25,740	—	25,740
Balance at 31 December 2016	<u>14,000</u>	<u>—</u>	<u>41,117</u>	<u>55,117</u>
For the year ended 31 December 2017				
At 1 January 2017	14,000	—	41,117	55,117
Profit for the year	—	—	25,274	25,274
Distribution to owners of the Company recognised in equity				
Dividend relating to 2017 (<i>Note 27</i>)	—	—	(43,000)	(43,000)
Balance at 31 December 2017	<u>14,000</u>	<u>—</u>	<u>23,391</u>	<u>37,391</u>

COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Cash flows from operating activities				
Net cash generated from/(used in) operations	29	98,751	(30,795)	37,578
Interest received		187	190	215
Income tax paid		(5,147)	(16,139)	(10,415)
Net cash generated from/(used in) operating activities		<u>93,791</u>	<u>(46,744)</u>	<u>27,378</u>
Cash flows from investing activities				
Proceed from disposal of property and equipment		—	95	—
Purchase of property and equipment		—	(1,252)	(90)
Decrease/(increase) in pledged bank deposits		7,989	(16)	(8,052)
Cash advanced to related parties		(128,972)	(32,816)	(79,562)
Repayment from related parties		63,200	173,562	61,402
Net cash (used in)/generated from investing activities		<u>(57,783)</u>	<u>139,573</u>	<u>(26,302)</u>
Cash flows from financing activities				
Interest paid		(5,589)	(4,281)	(4,736)
Proceeds from borrowings		264,281	183,597	159,976
Repayments of borrowings		(275,860)	(204,033)	(142,429)
Payment of listing expenses to be capitalised into equity		(412)	(2,870)	(2,658)
(Repayments)/addition of obligations under finance leases		(177)	740	(299)
Cash advance from related parties		48,600	—	—
Repayment to related parties		(72,533)	—	—
Dividend paid		—	(75,000)	—
Net cash (used in)/generated from financing activities		<u>(41,690)</u>	<u>(101,847)</u>	<u>9,854</u>
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at beginning of year		(5,682)	(9,018)	10,930
		<u>(3,646)</u>	<u>(9,328)</u>	<u>(18,346)</u>
Cash and cash equivalents at end of year		<u>(9,328)</u>	<u>(18,346)</u>	<u>(7,416)</u>
Analysis of the balances of cash and cash equivalents				
Cash and bank balances	20	723	350	503
Bank overdrafts	25	(10,051)	(18,696)	(7,919)
		<u>(9,328)</u>	<u>(18,346)</u>	<u>(7,416)</u>

NOTES TO THE COMBINED FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated in Cayman Islands on 2 February 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, “**the Group**”) are principally engaged in the supply and installation of marble products in Hong Kong (“**HK**”) (the “**Listing Business**”). The ultimate holding company of the Company is PMG Investments Limited. The ultimate controlling party of the Group is Mr. Lui Yue Yun, Gary (“**Mr. Lui**”).

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “**Reorganisation**”) as described below, the Listing Business was carried out by Pacific Marble & Granite (H.K.) Limited (“**PMG (HK)**”) and Pacific Marble & Granite Limited (“**PMG**”) (collectively the “**Operating Companies**”). The Operating Companies were controlled by Mr. Lui (the “**Controlling Shareholder**”) throughout the years ended 31 December 2015, 2016 and 2017 (the “**Track Record Period**”).

Certain companies controlled by the Controlling Shareholder conducting business other than the Listing Business are excluded from the Group (“**Excluded Group**”). The Excluded Group is engaged in (i) sale of marble and granite products in PRC, (ii) production and sales of granulated calcium carbonate powder, and (iii) investment in quarries, production and sales of stone blocks produced from such quarries. The Directors consider that the business of the Group and that of the Excluded Group are distinctly different and there is neither direct nor indirect competition between the Group and the Excluded Group.

The Group is principally engaged in the Listing Business. Through the operating history, management has established and viewed its business to be separated into two geographical operating segments including (i) trading, supply and installation of marble in HK (the “**HK Business**”) and (ii) trading of marble and granite in the People’s Republic of China (“**PRC**”) (the “**PRC Trading Business**”). There are separate management teams within the Group initiating, negotiating and arranging the business and customers and keeping books and records for each of the separated operations.

In order to concentrate the resources in the HK Business, both in trading and supply and installation contracts, management decided to terminate its PRC Trading Business. No trading transaction has been recognised in relation to the PRC Trading Business since July 2015. The financial information of the discontinued business is separately disclosed in Note 13.

In preparation for listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation to transfer the Listing Business to the Company principally through the following steps:

The Company was incorporated on 2 February 2016 in the Cayman Islands and allotted and issued one share to PMG Investments Limited (“**PMG Investments**”), a company wholly owned by the Controlling Shareholder. On the same day, Pegasus Stone Limited (“**Pegasus**”) allotted and issued one fully paid share to the Company, thereby making Pegasus the Company’s wholly-owned subsidiary.

On 17 January 2016, PMG (HK) entered into an equity interest transfer agreement (the “**Equity Interest Transfer Agreement**”) with Pacific Marble & Granite Holdings Limited (“**PMG Holdings**”), a company wholly-owned by the Controlling Shareholder, pursuant to which PMG (HK) transferred the entire equity interest in Shanghai Hongjun Culture Communication Company Limited (“**Shanghai Hongjun**”), to PMG Holdings at the consideration of US\$3,300,000. The consideration for the transfer was determined with reference to the registered capital of Shanghai Hongjun as at 30 June 2015. The transfer of the equity interest was completed on 29 April 2016. As Shanghai Hongjun is part of the Excluded

Group, for the purpose of the report, Shanghai Hongjun does not form part of the Group throughout the Track Record Period. The corresponding consideration was accounted for as a deemed contribution from the Controlling Shareholder and reflected in the movement of capital reserve.

Subsequent to the Equity Interest Transfer Agreement, PMG (HK) became a wholly-owned subsidiary of Pegasus on 7 June 2018 through a share swap arrangement whereby Hoko Development Limited and Prime Scope Holdings Limited, companies wholly-owned by the Controlling Shareholder, transferred their entire shareholding interest in PMG (HK) to Pegasus for the consideration of (i) the one share in issue and registered in the name of PMG Investments, and (ii) the allotment and issuance of one share by the Company to PMG Investments as directed by Hoko Development Limited and Prime Scope Holdings Limited.

PMG became a wholly-owned subsidiary of Pegasus on 7 June 2018 through a share swap arrangement whereby PMG Holdings transferred its entire shareholding interest in PMG to Pegasus as directed by the Company in consideration of the allotment and issuance of one share by the Company to PMG Investments, as directed by PMG Holdings.

Upon the completion of the Reorganisation, the Company has direct or indirect interests in the following subsidiaries:

Name	Place and date of incorporation	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held		
					As at 31 December 2015	2016	2017
Directly held							
Pegasus Stone Limited	British Virgin Islands, 15 December 2015	Investment holding	Limited liability company	US\$1	100%	100%	100%
Indirectly held							
Pacific Marble & Granite (H.K.) Limited	Hong Kong, 19 December 1991	Trading of marble and granite and subcontracting of construction and engineering work of marble and granite	Limited liability company	HK\$14,000,000	100%	100%	100%
Pacific Marble & Granite Limited	Hong Kong, 30 June 2011	Trading of marble and granite and subcontracting of construction and engineering work of marble and granite	Limited liability company	HK\$100	100%	100%	100%

Notes:

- (a) The statutory financial statements for the year ended 31 December 2015, 2016 and 2017 where applicable, were audited by certified public accountants as follows:

Name of company	For the year ended 31 December		
	2015	2016	2017
Pacific Marble & Granite (H.K.) Limited	Robert Chui & Co.	Robert Chui & Co.	N/A
Pacific Marble & Granite Limited	Robert Chui & Co.	Robert Chui & Co.	N/A

- (b) No audited financial statements were issued for the Company as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Operating Companies, which are all wholly owned by the Controlling Shareholder are engaged in the Listing Business. Pursuant to the Reorganisation, the Operating Companies are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under the Operating Companies and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the financial statements of the Operating Companies on a combined basis, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business under the financial statements of the Operating Companies for all periods presented.

The net assets of the combining companies were combined using the existing book values from the Controlling Shareholder's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of Reorganisation.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied throughout the Track Record Periods.

2.1 Basis of preparation

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and has been prepared under the historical cost convention.

The preparation of the financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The following are standards, amendments and interpretations to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning after 1 January 2018, but have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to HKAS 28	Investments in associates and Joint Ventures	1 January 2018
Amendments to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 15	Clarification to HKFRS 15	1 January 2018
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to HKAS 40	Transfers of Investment Property	1 January 2018
HK(IFRIC) 23	Uncertainty over Income Tax	1 January 2019
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

According to the preliminary assessment made by the Directors, these new standards, amendments and interpretations to standards are not expected to have significant impact on the financial performance and positions of the Group when they become effective except for the following.

(i) *HKFRS 9 "Financial instruments"*

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a "three stage" approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Based on the historical experience of the Group, the default rates of the outstanding balances with customers and related parties are low. The directors of the Group are of the view that if the ECL model under HKFRS 9 were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not be significantly different as compared to the accumulated amount recognised under HKAS 39.

The Group will apply the new rules retrospectively since 1 January 2018, with the practical expedients permitted under the standard.

(ii) *HKFRS 15 "Revenue from contracts with customers"*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including HKAS 18, Revenue, HKAS 11, Construction contracts and HK(IFRIC)-Interpretation 13, Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5 step approach to revenue recognition:

- Step 1: Identify the contract(s) with 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.

The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

It moves away from a revenue recognition model based on an “earnings processes” to an “asset liability” approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent considerations. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

The principal operating activity of the Group is supply and installation services, and the performance obligations of this principal operating activity is currently recognised in accordance with Note 2.21. The directors of the Group has undertaken a preliminary assessment of the effect of the adoption of HKFRS 15. Based on the assessment, it was determined that the Group will continue to use input method in measuring the percentage of completion, which is based on costs incurred compared to total costs when applying HKFRS 15.

When applying input method, the Group would consider if there is any adjustment required for uninstalled materials, to ensure that the input method meets the objective of measuring progress towards complete satisfaction of a performance obligation. With reference to the past practice, the directors of the Company expect that the Group will not hold significant amount of uninstalled materials based on the existing operating model. Thus, the financial impact of the uninstalled materials in the application of HKFRS 15 will not be considered significant. It is expected that the application of input method and the implementation of HKFRS 15 as a whole would not result in any significant impact on the Group’s financial position and result of operations. Meanwhile, there will be additional disclosure requirement under HKFRS 15 upon its adoption.

The Group will apply the new rules retrospectively since 1 January 2018, with the practical expedients permitted under the standard.

(iii) *HKFRS 16 “Leases”*

HKFRS 16 “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The Group is a lessee of various properties which are currently classified as operating leases. The Group’s current accounting policy for such leases is set out in Note 2.22 with the Group’s future operating lease commitments, which are not reflected in the combined balance sheets, set out in Note 31. HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the balance sheet. Instead, almost all leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group’s combined balance sheets. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the combined balance sheets. As for the financial performance impact in the combined statements of comprehensive income, the operating lease expenses will decrease, while depreciation and amortisation and the interest expense will increase. The Group’s future aggregate minimum lease payments under non-cancellable operating leases as at 31 December 2017 are HK\$2,211,000 (Less than one year is HK\$2,211,000, more than one year and less than five years is HK\$Nil).

Other than the increase in assets and financial liabilities in the combined balance sheets and the financial performance impact in the combined statements of comprehensive income as mentioned above, the directors of the Company expect that the adoption of HKFRS 16 will not have significant impact on the financial position and financial performance of the Group. The new standard is not expected to apply until the financial year beginning on or after 1 January 2019.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined statement of comprehensive income within "finance income or costs". All other foreign exchange gains and losses are presented in the combined statement of comprehensive income within "other income and other gains, net".

2.5 Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The annual rates used for this purpose are:

Leasehold improvements	Shorter of remaining lease term or 20%
Furniture and fixtures	20%
Office equipments	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income and other gains, net" in the combined statement of comprehensive income.

2.6 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and retention receivables", "deposits and other receivables", "amount due from a related party", "pledged bank deposits" and "cash and bank balances" in the combined balance sheet (Notes 2.12 and 2.13).

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the combined balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.9 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statement of comprehensive income.

2.10 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the combined statement of comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and retention receivables, deposits and other receivables

Trade and retention receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and retention receivables, deposits and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 Cash and cash equivalents

In the combined statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the combined balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and retention payables

Trade and retention payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and retention payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Bank borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the combined statement of comprehensive income in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the combined statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits*(a) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Retirement benefit obligations

The Group pays contributions to an independently administered fund on a mandatory basis in Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the independently administered fund.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on performance of the Group and employees. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Stone sales*

Revenue from stone sales is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(b) *Supply and installation services*

Supply and installation services is the contract entered into by the Group with its customers for the supply and installation of marble products for a given period. It is defined by HKAS 11 as a contract specifically negotiated for the construction of an asset.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, supply and installation services is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as cost of sales by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total supply and installation services, the expected loss is recognised as an expense immediately.

The Group uses the "percentage-of completion" method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

When the outcome of a contract cannot be estimated reliably, supply and installation services is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in supply and installation services to the extent of contract costs incurred that are likely to be recoverable.

On the combined balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents liability where the opposite is the case.

(c) *Interest income*

Interest income is recognised using the effective interest method.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to combined statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property and equipment. Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the combined statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the finance department under the supervision of the board of directors. The board provides principles for overall risk management.

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from cash and bank balance and borrowings. Interest-bearing financial assets/liabilities issued at variable rates expose the Group to cash flow interest rate risk. Interest-bearing financial assets/liabilities issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2015, 2016 and 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained earnings by approximately HK\$475,000, HK\$537,000 and HK\$513,000 respectively. The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

(b) Foreign currency risk

The Group mainly operates in Hong Kong with most of the sales transactions and purchase transactions are settled in Hong Kong dollars and thus foreign exchange exposures is considered to be minimal.

(c) Credit risk

The credit risk of the Group mainly arises from trade and retention receivables, deposits and other receivables, amounts due from customers for contract works, amount due from a related party and bank balances.

The credit risk on deposits with bank and amount due from a related party are limited because deposits are in banks with sound credit ratings and management does not expect any loss from non-performance by related party.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group is exposed to concentration of credit risk as at 31 December 2015, 2016 and 2017 on trade and retention receivables from the Group's top five customers amounting to approximately HK\$15,411,000, HK\$67,300,000 and HK\$78,324,000 respectively and accounted for 79%, 89% and 88% respectively. The major customers of the Group are all reputable organisations. Management considers that the credit risk is limited in this regard.

(d) Liquidity risk

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate and short-term and long-term financing including short-term and long-term borrowings are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

As at 31 December 2015, 2016 and 2017, the Group's total available banking facilities amounted to approximately HK\$134,083,000, HK\$120,732,000 and HK\$144,791,000 respectively, of which approximately HK\$123,994,000, HK\$112,203,000 and HK\$102,886,000 respectively has been utilised.

Certain subsidiaries have guaranteed facilities amounted to HK\$11,012,000, HK\$11,028,000 and HK\$44,991,000 as at 31 December 2015, 2016 and 2017 granted to a related company. Under the bank facility agreement, certain subsidiaries will make payments to reimburse the bank upon failure of the guaranteed entities to make payments when due. The guaranteed amount is limited to the designated deposit or security's account balance placed in bank by certain subsidiaries as at 31 December 2015 and 2016 amounted to HK\$11,012,000 and HK\$11,028,000 respectively, and is unlimited as at 31 December 2017. The amounts represent the hypothetical payment to be crystallised upon failure of the full facilities (Note 30).

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balance within 12 months equal their carrying balances as impact from discounting is not significant.

Specifically, for bank borrowings which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lender were to invoke their unconditional rights to call the loans with immediate effect.

	On demand	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2015					
Trade and retention payables	—	32,201	—	—	32,201
Accruals and other payables	—	1,950	—	—	1,950
Bank borrowings	130,021	—	—	—	130,021
Obligations under finance leases	—	159	159	142	460
	<u>130,021</u>	<u>34,310</u>	<u>159</u>	<u>142</u>	<u>164,632</u>
As at 31 December 2016					
Trade and retention payables	—	47,506	—	—	47,506
Accruals and other payables	—	7,949	—	—	7,949
Bank borrowings	117,607	—	—	—	117,607
Obligations under finance leases	—	336	286	632	1,254
	<u>117,607</u>	<u>55,791</u>	<u>286</u>	<u>632</u>	<u>174,316</u>
As at 31 December 2017					
Trade and retention payables	—	32,947	—	—	32,947
Accruals and other payables	—	6,423	—	—	6,423
Bank borrowings	107,077	—	—	—	107,077
Amount due to a related party	—	391	—	—	391
Obligations under finance leases	—	286	585	46	917
	<u>107,077</u>	<u>40,047</u>	<u>585</u>	<u>46</u>	<u>147,755</u>

The table below analyses the bank borrowings of the Group into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date without taking into consideration the effect of repayment on demand clause.

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
As at 31 December 2015	<u>102,747</u>	<u>3,522</u>	<u>12,589</u>	<u>11,163</u>	<u>130,021</u>
As at 31 December 2016	<u>100,056</u>	<u>3,430</u>	<u>3,726</u>	<u>10,395</u>	<u>117,607</u>
As at 31 December 2017	<u>107,077</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>107,077</u>

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances and pledged deposits. Total capital is calculated as "equity" as shown in the combined balance sheet plus net debt.

As at 31 December 2015, 2016 and 2017, the gearing ratios were as follows:

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Obligation under finance leases	432	1,172	873
Bank borrowings (<i>Note 25</i>)	123,994	112,203	102,886
Amount due to a related party (<i>Note 28</i>)	—	—	391
Less: cash and bank balances (<i>Note 20</i>)	(723)	(350)	(503)
Less: pledged deposits (<i>Note 20</i>)	<u>(11,012)</u>	<u>(11,028)</u>	<u>(19,080)</u>
Net debt	112,691	101,997	84,567
Total equity	<u>2,006</u>	<u>55,117</u>	<u>37,391</u>
Total capital	<u>114,697</u>	<u>157,114</u>	<u>121,958</u>
Gearing ratio	<u>98%</u>	<u>65%</u>	<u>69%</u>

3.3 Fair value estimation

The carrying values of the Group's financial assets, including trade and retention receivables, deposits and other receivables, amounts due from customers for contract works, amount due from a related party and cash and bank balances and financial liabilities, including trade and retention payables, other payables, amounts due to customers for contract works, amount due to a related party and bank borrowings, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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 addressed below.

(a) Revenue recognition for construction contract

The Group reviews and revises the estimates of supply and installation services, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period. The Group recognised its supply and installation services according to the percentage of work performed to date of the individual contract of construction works as a percentage of total contract value. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revised the estimates of supply and installation services, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the supply and installation services.

(b) Impairment of trade and retention receivables and amounts due from customers for contract works

Management determines the provision for impairment of trade and retention receivables and amounts due from customers for contract works based on the credit history of customers and the current market condition. Significant judgment is exercised on the assessment of the collectability of receivables from each customer. In making the judgment, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The final outcome of the recoverability of these receivables will impact the amount of impairment required.

(c) Income tax

The Group is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Contingent liabilities

The Group, in the ordinary course of its business, is involved in various claims, law suits, investigations and legal proceedings that arise from time to time. Contingent liabilities arising from these legal proceedings have been assessed by management with legal advice.

5 SEGMENT INFORMATION

The Executive Directors of the Company (the "**Executive Directors**") are the Group's chief operating decision-makers. Management has determined the operating segments based on the information reviewed by the Executive Directors for the purposes of allocating resources and assessing performance.

The Executive Directors consider the business from a geographical perspective and assess the performance of the operating segments based on segment revenue, and segment results in HK and the PRC separately. Reports summarising business performance of the Group are prepared on the same basis as these combined financial information.

Management has identified two reportable segments based on the Group's geographical model, namely (1) HK Business and (2) PRC Trading Business for the year ended 31 December 2015.

As discussed in Note 13, the Group no longer carried on the PRC Trading Business since 1 July 2015. Trading of marble products in the PRC has been classified as discontinued operations of the Group for the year ended 31 December 2015.

Subsequent to the termination of the marble trading business in the PRC effective from 1 July 2015, there is only one single reportable segment on trading, supply and installation of marble products in HK for the Group for the years ended 31 December 2016 and 2017.

Segment assets and liabilities include all assets and liabilities but corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

The segment information provided to the Executive Directors for the years ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December 2015		Total HK\$'000
	Continuing operation — HK Business HK\$'000	Discontinued operation — PRC Trading Business HK\$'000	
Segment revenue			
Revenue from external customers	213,303	22,801	236,104
Cost of sales	(139,910)	(22,518)	(162,428)
Gross profit	73,393	283	73,676
Other income and other gains, net	52	—	52
Administrative expenses	(14,816)	—	(14,816)
Operating profit	58,629	283	58,912
Finance income	187	—	187
Finance costs	(4,902)	(687)	(5,589)
Segment results	53,914	(404)	53,510
Income tax expense			(9,728)
Profit for the year			43,782
			Year ended 31 December 2016
			Continuing operation — HK Business HK\$'000
Segment revenue			
Revenue from external customers			222,141
Cost of sales			(158,243)
Gross profit			63,898
Other income and other gains, net			100
Administrative expenses			(24,406)
Operating profit			39,592
Finance income			190
Finance costs			(4,281)
Segment results			35,501
Income tax expense			(8,130)
Profit for the year			27,371

	Year ended 31 December 2017 Continuing operation — HK Business HK\$'000
Segment revenue	
Revenue from external customers	224,793
Cost of sales	<u>(161,826)</u>
Gross profit	62,967
Other income and other gains, net	87
Administrative expenses	<u>(25,830)</u>
Operating profit	37,224
Finance income	215
Finance costs	<u>(4,736)</u>
Segment results	32,703
Income tax expense	<u>(7,429)</u>
Profit for the year	<u>25,274</u>

The segment assets as at 31 December 2015 and 2016 and 2017 are as follows:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
HK Business	77,099	174,305	158,119
PRC Trading Business	<u>40</u>	<u>—</u>	<u>—</u>
	77,139	174,305	158,119
Unallocated			
Property and equipment	481	1,196	873
Deposits, prepayments and other receivables	4,530	5,462	7,824
Amount due from a related party	80,542	40,536	—
Pledged bank deposits	11,012	11,028	19,080
Cash and bank balances	<u>723</u>	<u>350</u>	<u>503</u>
Total assets per combined balance sheets	<u>174,427</u>	<u>232,877</u>	<u>186,399</u>

The segment liabilities as at 31 December 2015, 2016 and 2017 are as follows:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Liabilities			
HK Business	<u>159,806</u>	<u>172,414</u>	<u>146,556</u>
	159,806	172,414	146,556
Unallocated			
Amount due to a related party	—	—	391
Obligations under finance leases	432	1,172	873
Tax payable	<u>12,183</u>	<u>4,174</u>	<u>1,188</u>
Total liabilities per combined balance sheets	<u>172,421</u>	<u>177,760</u>	<u>149,008</u>

The Company was incorporated in the Cayman Islands while the Group operates its business primarily in Hong Kong. During the Track Record Period, no revenue was generated from Cayman Islands and no assets were located in Cayman Islands.

During the years ended 31 December 2015 and 2016 and 2017, revenue from one, four and three customers, respectively, individually contributed over 10% of the Group's revenue. The revenue from each of these customers during the Track Record Periods are summarised below:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing operations			
Customer 1 (Note a)	181,147	71,652	62,366
Customer 2 (Note a)	N/A ^(b)	53,122	N/A ^(b)
Customer 3 (Note a)	N/A ^(b)	34,428	N/A ^(b)
Customer 4 (Note a)	N/A ^(b)	26,057	53,591
Customer 5 (Note a)	N/A ^(b)	N/A ^(b)	45,808

Notes:

- (a) The revenue was generated from supply and installation of marble product contract in Hong Kong.
- (b) The corresponding customers did not contribute over 10% of the total revenue of the Group from continuing operations for the specific year.

6 REVENUE

Revenue represents the total value of contract works completed and the stone sales during the years as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing operations			
Supply and installation service	208,668	213,021	219,861
Stone sales	4,635	9,120	4,932
	<u>213,303</u>	<u>222,141</u>	<u>224,793</u>

7 OTHER INCOME AND OTHER GAINS, NET

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing operations			
Other income and other gains, net, is as follows:			
Exchange gains, net	5	—	58
Gain on disposal of property and equipment	—	11	—
Sundry income	47	89	29
	<u>52</u>	<u>100</u>	<u>87</u>

8 EXPENSES BY NATURE

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing operations			
Cost of inventories	3,284	5,351	3,161
Construction cost recognised in cost of sales	136,705	152,892	158,665
Auditor's remuneration — Audit services	170	270	150
Depreciation (Note 15)	427	453	413
Operating lease payments	3,185	2,834	2,646
Employee benefit expenses (including directors' emoluments) (Note 9)	6,108	8,268	10,588
Motor vehicle expenses	763	847	843
Listing related expenses	1,236	9,846	8,974
Legal and professional fee	597	11	172
Reversal of provision for obsolete inventories (Note 17)	(79)	—	—
Impairment of trade and retention receivables (Note 18)	—	—	680
Others	2,330	1,877	1,364
	<u>154,726</u>	<u>182,649</u>	<u>187,656</u>

9 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and bonuses	8,573	13,298	16,610
Retirement benefit costs — defined contribution plans	299	385	463
Less: amount included in construction contracts	(2,764)	(5,415)	(6,485)
	<u>6,108</u>	<u>8,268</u>	<u>10,588</u>

Five highest paid individuals

For the years ended 31 December 2015, 2016 and 2017, the five individuals whose emoluments were the highest in the Group include two, two and two directors, respectively, whose emolument is reflected in the analysis in Note 10. The emoluments paid/payable to the remaining three, three and three individuals, respectively, during the years ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and benefits in kind	1,260	1,908	1,985
Bonuses	273	145	215
Retirement benefit costs — defined contribution plans	50	54	54
	<u>1,583</u>	<u>2,107</u>	<u>2,254</u>

The emoluments of the highest paid individuals fell within the following bands:

Emolument band	Number of individuals		
	Year ended 31 December		
	2015	2016	2017
Nil to HK\$500,000	1	—	—
HK\$500,000 to HK\$1,000,000	2	3	3

10 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HONG KONG LISTING RULES)

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2015:

	Fee	Salary	Discretionary bonuses	Housing	Employer's contribution of a retirement benefit scheme	Estimated money value of other benefits	Remunerations paid or receivable in respect of accepting office as a director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors									
Siu Chi Fung, Stephen	—	720	60	—	8	—	—	—	788
Lui Po Kwan, Joyce	—	80	40	—	3	—	—	—	123
Lui Yue Yun, Gary	—	1,200	—	164	18	—	—	—	1,382
	—	2,000	100	164	29	—	—	—	2,293

For the year ended 31 December 2016:

	Fee	Salary	Discretionary bonuses	Housing	Employer's contribution of a retirement benefit scheme	Estimated money value of other benefits	Remunerations paid or receivable in respect of accepting office as a director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors									
Siu Chi Fung, Stephen	—	1,300	—	—	—	—	—	—	1,300
Lui Po Kwan, Joyce	—	590	—	—	18	—	—	—	608
Lui Yue Yun, Gary	—	1,200	—	161	18	—	—	—	1,379
	—	3,090	—	161	36	—	—	—	3,287

For the year ended 31 December 2017:

	Fee	Salary	Discretionary bonuses	Housing	Employer's contribution of a retirement benefit scheme	Estimated money value of other benefits	Remunerations paid or receivable in respect of accepting office as a director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors									
Siu Chi Fung, Stephen	—	1,200	100	—	—	—	—	—	1,300
Lui Po Kwan, Joyce	—	600	50	—	18	—	—	—	668
Lui Yue Yun, Gary	—	2,160	—	123	18	—	—	—	2,301
	—	3,960	150	123	36	—	—	—	4,269

(b) Directors' termination benefits

None of the directors received or will receive any termination benefits during the Track Record Periods.

(c) Consideration provided to third parties for making available directors' services

During the Track Record Periods, the Company did not pay consideration to any third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

As at 31 December 2015 and 2016, the Group has entered into a loan arrangement with a local bank for the mortgage of a property owned by the Controlling Shareholder (Note 25). The related bank loan has been settled by the Controlling Shareholder during the year ended 31 December 2017 (Note 28). Saved from disclosed above, there are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Periods.

11 FINANCE INCOME AND COSTS

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing operations:			
Finance income			
Interests from:			
— Bank deposits	14	21	44
— Recharged from the Controlling Shareholder on bank borrowing arrangement (<i>Note 28</i>)	173	169	171
	<u>187</u>	<u>190</u>	<u>215</u>
Finance costs			
Interests from:			
— Bank overdraft	432	551	930
— Trust receipt loans interest	2,186	2,570	2,562
— Bank loans	1,363	1,130	1,206
— Finance lease interest	22	30	38
— Other borrowings (i)	899	—	—
	<u>4,902</u>	<u>4,281</u>	<u>4,736</u>

Notes:

- (i) Other borrowings were borrowed for the settlement of the purchase costs of construction materials and service charges. The loans were unsecured, interest bearing at an effective rate of 2.2% per each drawdown during the year ended 31 December 2015 and repayable at agreed repayment terms. The other borrowings had been fully repaid during the year ended 31 December 2015.

12 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% for the Track Record Periods on the estimated assessable profits for the years.

The amount of income tax expense charged to the combined statements of comprehensive income represents:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current tax:			
Hong Kong profits tax	9,564	7,589	7,026
Under provision in prior years	164	541	403
	<u>9,728</u>	<u>8,130</u>	<u>7,429</u>
Income tax expense			

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the Group's subsidiaries as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing operations			
Profit before income tax	53,914	35,501	32,703
Tax calculated at 16.5%	8,896	5,858	5,396
Income not subject to tax	(2)	(3)	(7)
Expenses not deductible for tax purposes	578	1,724	1,635
Under provision in prior years	164	541	403
Tax losses not recognised	92	10	2
	<u>9,728</u>	<u>8,130</u>	<u>7,429</u>

For the years ended 31 December 2015, 2016 and 2017, PMG (HK) has unrecognised tax losses of approximately HK\$1,172,000, HK\$1,229,000, HK\$1,242,000 respectively available for offset against future profit. No deferred tax asset has been recognised in respect of these tax losses in the financial statements as it is uncertain whether future taxable profit will be available for utilising the tax losses. All unutilised tax losses can be carried forward indefinitely under the current tax legislation.

The under provision in prior years represented surcharge for late tax payment for the years ended 31 December 2015, 2016 and 2017.

13 DISCONTINUED OPERATIONS

On 31 December 2014, the Board of directors approved the decision to discontinue the marble trading business in the PRC effective from 1 July 2015.

The loss for the year from the discontinued operation of marble trading business in the PRC is set out below:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Loss of marble trading business in the PRC for the year	<u>(404)</u>	<u>N/A</u>	<u>N/A</u>

The results of the operations of marble trading business in the PRC for the Track Record Period, which have been included in the combined statements of comprehensive income, were as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Revenue	22,801	N/A	N/A
Cost of sales	<u>(22,518)</u>	<u>N/A</u>	<u>N/A</u>
Gross profit	283	N/A	N/A
Finance cost	<u>(687)</u>	<u>N/A</u>	<u>N/A</u>
Loss before income tax	(404)	N/A	N/A
Income tax expense	<u>—</u>	<u>N/A</u>	<u>N/A</u>
Loss for the year	<u>(404)</u>	<u>N/A</u>	<u>N/A</u>
	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Cash flows of discontinued operations			
Net cash used in operating activities	(19,501)	N/A	N/A
Net cash used in financing activities	<u>(32,530)</u>	<u>N/A</u>	<u>N/A</u>
Net cash outflow	<u>(52,031)</u>	<u>N/A</u>	<u>N/A</u>

14 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the years ended 31 December 2015, 2016 and 2017 on a combined basis as set out in Note 1.3 above.

15 PROPERTY AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015					
Cost	571	12	—	1,552	2,135
Accumulated depreciation	(399)	(8)	—	(820)	(1,227)
Net book amount	<u>172</u>	<u>4</u>	<u>—</u>	<u>732</u>	<u>908</u>
Year ended 31 December 2015					
Opening net book amount	172	4	—	732	908
Depreciation	(114)	(3)	—	(310)	(427)
Closing net book amount	<u>58</u>	<u>1</u>	<u>—</u>	<u>422</u>	<u>481</u>
At 31 December 2015					
Cost	571	12	—	1,552	2,135
Accumulated depreciation	(513)	(11)	—	(1,130)	(1,654)
Net book amount	<u>58</u>	<u>1</u>	<u>—</u>	<u>422</u>	<u>481</u>
Year ended 31 December 2016					
Opening net book amount	58	1	—	422	481
Addition	—	19	189	1,044	1,252
Disposal	—	—	—	(84)	(84)
Depreciation	(58)	(6)	(38)	(351)	(453)
Closing net book amount	<u>—</u>	<u>14</u>	<u>151</u>	<u>1,031</u>	<u>1,196</u>
At 31 December 2016					
Cost	571	31	189	1,757	2,548
Accumulated depreciation	(571)	(17)	(38)	(726)	(1,352)
Net book amount	<u>—</u>	<u>14</u>	<u>151</u>	<u>1,031</u>	<u>1,196</u>
Year ended 31 December 2017					
Opening net book amount	—	14	151	1,031	1,196
Addition	—	—	90	—	90
Depreciation	—	(6)	(56)	(351)	(413)
Closing net book amount	<u>—</u>	<u>8</u>	<u>185</u>	<u>680</u>	<u>873</u>
At 31 December 2017					
Cost	571	31	279	1,757	2,638
Accumulated depreciation	(571)	(23)	(94)	(1,077)	(1,765)
Net book amount	<u>—</u>	<u>8</u>	<u>185</u>	<u>680</u>	<u>873</u>

As at 31 December 2015, 2016 and 2017, motor vehicles of the Group amounting to approximately HK\$422,000, HK\$1,031,000 and HK\$680,000 respectively were held under finance leases.

The Group leases various motor vehicles under non-cancellable finance lease agreements. The lease terms are 5 years and ownership of the assets lie within the Group.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Financial assets			
Loans and receivables at amortised cost:			
Trade and retention receivables	19,569	75,408	89,470
Deposits and other receivables	783	622	1,186
Amount due from a related party	80,542	40,536	—
Pledged bank deposits	11,012	11,028	19,080
Cash and bank balances	723	350	503
	<u>112,629</u>	<u>127,944</u>	<u>110,239</u>
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and retention payables	32,201	47,506	32,947
Accruals and other payables	1,950	7,949	6,423
Amount due to a related party	—	—	391
Obligation under finance leases	432	1,172	873
Bank borrowings	123,994	112,203	102,886
	<u>158,577</u>	<u>168,830</u>	<u>143,520</u>

17 INVENTORIES

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Marble and granite	3,353	—	—
	<u>3,353</u>	<u>—</u>	<u>—</u>

The cost of inventories recognised as expense and included in “cost of sales” amounted to approximately HK\$3,284,000, HK\$5,351,000 and HK\$3,161,000 respectively for the years ended 31 December 2015, 2016 and 2017.

Movements on the Group's provision for impairment of inventories are as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
At beginning of year	79	—	—
Reversal of provision for obsolete inventories (Note 8)	(79)	—	—
At end of year	<u>—</u>	<u>—</u>	<u>—</u>

18 TRADE AND RETENTION RECEIVABLES

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Trade receivables — third parties	3,427	55,096	59,122
Retention receivables — third parties	<u>16,142</u>	<u>20,312</u>	<u>31,028</u>
	19,569	75,408	90,150
Less: provision for impairment	<u>—</u>	<u>—</u>	<u>(680)</u>
	<u>19,569</u>	<u>75,408</u>	<u>89,470</u>

The Group's credit terms granted to third-party trade customers other than retention receivables generally ranged from 30 to 90 days. The terms and conditions in relation to the release of retention vary from contract to contract, which is subject to practical completion or the expiry of the defect liability period ranging from 12 to 24 months.

As at 31 December 2015, 2016 and 2017, trade and retention receivables amounting to approximately HK\$19,569,000, HK\$75,408,000 and HK\$31,870,000, respectively, have been pledged to secure the bank borrowings facilities as set out in Note 25 and are classified as current assets.

As at 31 December 2015, 2016 and 2017, the ageing analysis of the third-party trade receivables, based on invoice date, is as follows:

	As at 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Less than 30 days	2,272	53,774	34,088
31–60 days	814	—	9,954
61–90 days	46	—	6,529
Over 90 days	<u>295</u>	<u>1,322</u>	<u>8,551</u>
	<u>3,427</u>	<u>55,096</u>	<u>59,122</u>

As at 31 December 2015, 2016 and 2017, trade and retention receivables of approximately HK\$Nil, HK\$Nil and HK\$680,000 were impaired and fully provided. The individually impaired trade and retention receivables mainly relate to customers that were in default or delinquency in payments, in which the directors are of the opinion that whole outstanding amount are expected not to be recovered.

Movements in the provision for impairment of trade and retention receivables that are assessed for impairment are as follows:

	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
At 1 January	—	—	—
Provision for impairment recognised during the year	<u>—</u>	<u>—</u>	<u>680</u>
At 31 December	<u>—</u>	<u>—</u>	<u>680</u>

During the year, the following losses were recognised in profit or loss in relation to impaired trade and retention receivables.

	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Impairment losses			
— movement in provision for impairment	—	—	680

As at 31 December 2015, 2016 and 2017, third-party trade receivables of approximately HK\$378,000, HK\$1,322,000 and HK\$8,047,000 were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

	As at 31 December		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Overdue			
Less than 30 days	38	—	3,445
31–60 days	46	—	3,848
61–90 days	169	—	—
Over 90 days	125	1,322	754
	<u>378</u>	<u>1,322</u>	<u>8,047</u>

As at 31 December 2015, 2016 and 2017, the carrying amounts of trade and retention receivables are denominated in HK\$ and approximate their fair values.

Retention receivables in respect of the supply and installation business are settled in accordance with the terms of the respective contracts. In the combined balance sheets, retention receivables were classified as current assets based on operating cycle. The ageing analysis of the retention receivables based on terms of contracts was as follows:

	As at 31 December		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 year	3,053	2,644	7,960
Between 1 to 2 years	13,089	17,668	23,068
	<u>16,142</u>	<u>20,312</u>	<u>31,028</u>

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade deposits	13	34	4,988
Prepayments	3,747	4,840	14,586
Insurance compensation receivables	744	399	471
Other receivables	26	189	716
	<u>4,530</u>	<u>5,462</u>	<u>20,761</u>

As at 31 December 2015, 2016 and 2017, the carrying amounts of deposits and other receivables are denominated in HK\$ and approximate their fair values.

20 PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Pledged bank deposits	11,012	11,028	19,080
Cash in bank	718	345	498
Cash on hand	5	5	5
	<u>723</u>	<u>350</u>	<u>503</u>

The carrying amounts of pledged bank deposits and cash and bank balances are denominated in the following currencies:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
HK\$	11,728	11,371	19,576
Renminbi ("RMB")	<u>7</u>	<u>7</u>	<u>7</u>
	<u>11,735</u>	<u>11,378</u>	<u>19,583</u>

Cash and bank balances and bank overdrafts include the following for the purposes of the combined statements of cash flows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances in the combined balance sheets	723	350	503
Less: bank overdrafts (Note 25)	<u>(10,051)</u>	<u>(18,696)</u>	<u>(7,919)</u>
Cash and cash equivalents in the combined statements of cash flows	<u>(9,328)</u>	<u>(18,346)</u>	<u>(7,416)</u>

For the years ended 31 December 2015, 2016 and 2017, the pledged bank deposits and bank balances generate interest at prevailing market interest rates ranged from 0.01% to 0.15%, 0.01% to 0.40% and 0.01% to 0.71% per annum respectively.

The pledged bank deposits are held in designated bank accounts for the Group's banking facilities (Note 25).

Pledged bank deposits represent deposits that will mature within 3 months and are therefore classified as current assets.

21 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Contract costs incurred plus recognised profits less recognised losses	499,837	591,125	622,344
Less: progress billings	<u>(445,756)</u>	<u>(493,941)</u>	<u>(567,571)</u>
Balance at end of year	<u>54,081</u>	<u>97,184</u>	<u>54,773</u>
Analysed for reporting purposes as:			
Amounts due from customers for contract works	54,217	98,897	55,712
Amounts due to customers for contract works	<u>(136)</u>	<u>(1,713)</u>	<u>(939)</u>
	<u>54,081</u>	<u>97,184</u>	<u>54,773</u>

As at 31 December 2015, 2016 and 2017, amounts due from customers for contract works amounting to HK\$Nil, HK\$Nil and HK\$26,986,000 respectively have been pledged to secure the bank borrowings facilities as set out in Note 25.

22 TRADE AND RETENTION PAYABLES

Trade and retention payables at the end of the reporting period comprise amounts outstanding for trade purposes. The average credit period taken for trade purchase is 30 to 90 days.

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Contract creditors and suppliers — Third parties	27,410	40,288	23,217
Retention payables — Third parties	<u>4,791</u>	<u>7,218</u>	<u>9,730</u>
	<u>32,201</u>	<u>47,506</u>	<u>32,947</u>

As at 31 December 2015, 2016 and 2017, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
1–30 days	14,654	16,535	5,188
31–60 days	1,362	9,854	2,291
61–90 days	2,099	1,904	4,051
Over 90 days	<u>9,295</u>	<u>11,995</u>	<u>11,687</u>
	<u>27,410</u>	<u>40,288</u>	<u>23,217</u>

As at 31 December 2015, 2016 and 2017, the carrying amounts of trade and retention payables are denominated in HK\$ and approximate their fair values.

23 ACCRUALS AND OTHER PAYABLES

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Accruals for employee benefit expenses	701	1,892	2,459
Accruals for legal and professional fee	240	270	250
Accruals for listing expenses	1,260	6,157	4,709
Deposits received	157	333	34
Other accruals and other payables	1,117	2,340	2,332
	<u>3,475</u>	<u>10,992</u>	<u>9,784</u>

As at 31 December 2015, 2016 and 2017, the carrying amounts of accruals and other payables are denominated in HK\$ and approximate their fair values.

24 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2015	2016	2017	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	159	336	286	144	299	260
In the second to fifth year inclusive	301	918	631	288	873	613
Less: future finance charges	(28)	(82)	(44)	—	—	—
Present value of lease obligations	<u>432</u>	<u>1,172</u>	<u>873</u>	432	1,172	873
Less: amount due for settlement within one year (classified as current liabilities)				(144)	(299)	(260)
Amount due for settlement over one year (classified as non-current liability)				<u>288</u>	<u>873</u>	<u>613</u>

The Group leases certain of its motor vehicles under finance leases. The original lease term entered by the Group for the leases outstanding as at 31 December 2015, 2016 and 2017 are 5 years. Interest rates underlying all obligations under finance leases for the year ended 31 December 2015, 2016 and 2017 are fixed at respective contract dates ranging from 3.79% to 4.64% per annum, 3.40% to 4.64% per annum and 3.40% to 4.64% per annum respectively.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

25 BANK BORROWINGS

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts (Note 20)	10,051	18,696	7,919
Term loans — secured	10,000	6,250	3,591
Trust receipt loans — secured	71,867	55,857	74,876
Revolving loans — secured	18,500	18,500	16,500
Bank loan — secured ⁽ⁱ⁾	13,576	12,900	—
	<u>123,994</u>	<u>112,203</u>	<u>102,886</u>

Bank overdrafts are repayable within the next 12 months as at 31 December 2015, 2016 and 2017. Bank borrowings due for repayment, based on the scheduled repayment dates set out in the loan agreements and without taking into account the effect of any repayment on demand are as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank borrowings:			
Within 1 year	88,793	77,533	94,967
Between 1 and 2 years	3,176	3,176	—
Between 2 and 5 years	11,778	3,278	—
Over 5 years	10,196	9,520	—
	<u>113,943</u>	<u>93,507</u>	<u>94,967</u>

As at 31 December 2015, 2016 and 2017, HK\$113,943,000, HK\$93,507,000 and HK\$94,967,000 respectively of bank borrowings facilities granted to the Group are secured by the following:

- (a) A legal charge on certain leasehold properties of the Controlling Shareholder and a related company (Note 28);
- (b) Joint and several personal guarantees executed by the directors of the Company (Note 10);
- (c) Corporate guarantees given by related companies (Note 28);
- (d) Trade and retention receivables amounting to HK\$19,569,000, HK\$75,408,000 and HK\$31,870,000 as at 31 December 2015, 2016 and 2017 respectively;
- (e) Unlimited guarantee from the Controlling Shareholder (Note 28);
- (f) Limited guarantee from Hong Kong Special Administrative Region Government (“HKSAR”);
- (g) (i) Pledged deposits amounting to HK\$11,012,000, HK\$11,028,000 and HK\$11,080,000 as at 31 December 2015, 2016 and 2017 respectively; (ii) Pledged deposit amounting to HK\$8,000,000 as at 31 December 2017; and
- (h) Amounts due from customers for contract works amounting to HK\$Nil, HK\$Nil and HK\$26,986,000 as at 31 December 2015, 2016 and 2017 respectively.

Notes:

- (i) As at 31 December 2015 and 2016, the term loans are secured by (a), (b), (c), (d), (e) and (g)(i). As at 31 December 2017, the terms loans are secured by (b) and (e).
- (ii) As at 31 December 2015 and 2016, the trust receipt loans are secured by (a), (b), (c), (d), (e), (g)(i) and (h). As at 31 December 2017, HK\$54,884,000 out of HK\$74,876,000 are secured by (a), (b), (c), (d), (e), (g)(i) and (h). The remaining HK\$19,992,000 are secured by (b), (e) and (g)(ii).
- (iii) As at 31 December 2015 and 2016, HK\$12,500,000 out of HK\$18,500,000 are secured by (a), (b), (c), (d), (e), (g)(i) and (h). The remaining HK\$6,000,000 are secured by (b), (e) and (f). As at 31 December 2017, HK\$12,500,000 out of HK\$18,500,000 are secured by (a), (b), (c), (d), (e), (g)(i) and (h). The remaining HK\$4,000,000 are secured by (b), (e) and (g)(ii).
- (iv) The bank loan was borrowed by the Group on behalf of the Controlling Shareholder and secured by his mortgage property. A corresponding amount due from the Controlling Shareholder was recognised and included in current asset. The interest rate of the bank loan was stated at 1% per annum over HBOR for the years ended 31 December 2015, 2016 and 2017. The bank loan was settled by the Controlling Shareholder during the year ended 31 December 2017 (Note 28).

As at 31 December 2015, 2016 and 2017, the carrying amounts of bank borrowings approximate their fair values.

The weighted average interest rates are 3.31%, 3.85% and 3.83% per annum as at 31 December 2015, 2016 and 2017, respectively.

26 CAPITAL AND RESERVES

As mentioned in Note 1.3 above, the Historical Financial Information has been prepared as if the current group structure had been in existence throughout the Track Record Period or since the respective dates of incorporation/establishment of the combining companies, or since the date when the combining companies first came under the control of the Controlling Shareholder, whichever is the shorter period.

Combined capital during the Track Record Period represents the combined share capital of the Operating Companies. Reserves during the Track Record Period comprised of the capital reserve and retained earnings.

The capital reserve as at 1 January 2015 represents the cost of investment in Shanghai Hongjun. For the purpose of the report, Shanghai Hongjun was excluded as part of the Group throughout the Track Record Period. Movement of the capital reserve during the Track Record Period represents a deemed contribution of US\$3,300,000 from the Controlling Shareholder as part of the Reorganisation explained in Note. 1.2.

Retained earnings during the Track Record Period represents the deficits/equities of the Operating Companies after elimination of inter-company transactions and balances. The movements in retained earnings during the Track Record Period mainly comprised profit for the year and a dividend in 2015 and 2017. Please see Note 27 for more detail on the dividend.

27 DIVIDEND

No dividend has been paid or declared by the Company since its incorporation.

Dividends declared during the year ended 31 December 2015 and 2017 represented dividends declared by the companies now comprising the Group to the then equity holders of the companies for the year ended 31 December 2015 and 2017, after elimination of intra- group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report. See Note 29(c) for more information on the dividend in 2015 and 2017.

28 RELATED PARTIES BALANCES AND TRANSACTIONS

For the purposes of these combined financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operational decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individual/companies were related parties that had transactions or balances with the Group during the years ended 31 December 2015, 2016 and 2017:

Name of the related party	Relationship with the Group
Lui Yue Yun Gary	The Controlling Shareholder
Cheong Wah Metal Company (wholly owned by Koon Wah Metal Co., Ltd.)	Controlled by a shareholder with close family relationship of the Controlling Shareholder
Pacific Marble & Granite Holdings Limited	Controlled by the Controlling Shareholder
Shanghai Pacific Marble & Granite Limited	Controlled by the Controlling Shareholder
Win Goal Enterprises Limited	Controlled by the Controlling Shareholder

(a) Amount due from a related party

Amount due from a related party is unsecured, interest-free, repayable on demand and denominated in HK\$ except for the amount corresponding to the bank loan of HK\$13,576,000 and HK\$12,900,000 borrowed on behalf of the Controlling Shareholder as at 31 December 2015 and 2016 which bear interest at 1% per annum over HIBOR.

The Group had the following material non-trade balance due from a related party:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-trade receivable			
Lui Yue Yun, Gary	80,542	40,536	—

Note:

The balance with Lui Yue Yun, Gary, the Controlling Shareholder of the Group includes the following:

- (i) As at 31 December 2015 and 2016, bank loan of HK\$13,576,000 and HK\$12,900,000 respectively was borrowed by the Group on behalf of Lui Yue Yun, Gary, which was secured by his mortgage property. The interest rate of the bank loan was stated at 1% per annum over HIBOR for the years ended 31 December 2015, 2016 and 2017. Interests of HK\$173,000, HK\$169,000 and HK\$171,000 have been recharged from Lui Yue Yun, Gary, the Controlling Shareholder of the Group under "Finance income" for the years ended 31 December 2015, 2016 and 2017 respectively.

The above bank loan has been settled by the Controlling Shareholder during the year ended 31 December 2017.

(b) The Group had the following material non-trade balance due to a related party:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-trade payable			
Lui Yue Yun, Gary	—	—	391

(c) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the Track Record Periods:

(i) Continuing transactions

	For the year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Motor vehicle rental expense to Win Goal Enterprises Limited	146	99	146

(ii) Non-continuing transactions

	For the year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Stone sales to Shanghai Pacific Marble & Granite Limited	22,716	—	—
Interest expense charged by Cheong Wah Metal Company (wholly owned by Koon Wah Metal Co., Ltd.)	916	—	—
Interest income recharge on bank borrowing arrangement from Lui Yue Yun, Gary	173	169	171
Rent and rates and building management fee expense to Pacific Marble & Granite Holdings Limited	2,086	2,834	1,939

Note (i) Stone sales to related company was conducted in the normal course of business at prices and terms as agreed by transacting parties

(d) Key management compensation

Key management includes executive and non-executive directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	For the year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,564	4,704	5,883
Pension costs	44	72	91
	<u>2,608</u>	<u>4,776</u>	<u>5,974</u>

(e) Guarantee by director

The bank borrowings and obligation under finance leases facilities, supported by personal guarantee provided by the director of the Company, are as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Lui Yue Yun, Gary	124,426	113,375	103,759

(f) Corporate guarantee to a related company

As at 31 December 2015, 2016 and 2017, certain subsidiaries jointly provided corporate guarantee to a bank to secure banking facilities granted to a related company amounting to HK\$11,012,000, HK\$11,028,000 and HK\$44,991,000 respectively.

29 NOTES TO THE STATEMENT OF CASH FLOWS**(a) Reconciliation of profit before income tax to cash generated from/(used in) operations**

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities			
Profit before income tax including discontinued operations	53,510	35,501	32,703
Adjustments for:			
Finance income	(187)	(190)	(215)
Finance costs	5,589	4,281	4,736
Reversal of provision for obsolete inventories	(79)	—	—
Gain on disposal of property and equipment	—	(11)	—
Impairment of trade and retention receivables	—	—	680
Depreciation of property and equipment	427	453	413
	59,260	40,034	38,317
Changes in working capital			
Decrease in inventories	14,174	3,353	—
Decrease/(increase) in trade and retention receivables	51,370	(55,839)	(14,742)
Decrease/(increase) in deposits, prepayments and other receivables	2,106	1,938	(12,641)
(Increase)/decrease in amounts due from customers for contract works, net	(36,992)	(43,103)	42,411
Increase/(decrease) in trade and retention payables	8,003	15,305	(14,559)
Increase/(decrease) in accruals and other payables	830	7,517	(1,208)
Net cash generated from/(used in) operations	98,751	(30,795)	37,578

(b) In the combined statement of cash flows, proceeds from disposal of property and equipment comprise:

	Year ended 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Net book amount	—	84	—
Gain on disposal of property and equipment	—	11	—
Proceed from disposal of property and equipment	—	95	—

(c) Non-cash transactions disclosure

Significant non-cash transactions

For the year ended 31 December 2017, the Group declared dividend of HK\$43,000,000 as distribution to owners of the companies now comprising the Group which was settled by way of offsetting against the amount due from a related party.

For the year ended 31 December 2017, a term loan and bank loan of HK\$3,750,000 and HK\$12,337,000 respectively were settled by the Controlling Shareholder (Note 28).

(d) Cash flow information — Financing activities

This section sets out the movement of liabilities from financing activities for each of the years ended 31 December 2015, 2016 and 2017.

	Finance lease liabilities due within 1 year HK\$'000	Finance lease liabilities due after 1 year HK\$'000	Interest payable HK\$'000	Bank borrowings (excludes bank overdraft) HK\$'000	Amounts due to related parties HK\$'000	Total HK\$'000
As at 1 January 2015	177	432	—	125,522	120,369	246,500
Non cash	—	—	5,589	—	(96,436)	(90,847)
Cash inflow	—	—	—	264,281	48,600	312,881
Cash outflow	(33)	(144)	(5,589)	(275,860)	(72,533)	(354,159)
As at 31 December 2015	144	288	—	113,943	—	114,375
As at 1 January 2016	144	288	—	113,943	—	114,375
Non cash	—	—	4,281	—	—	4,281
Cash inflow	155	585	—	183,597	—	184,337
Cash outflow	—	—	(4,281)	(204,033)	—	(208,314)
As at 31 December 2016	299	873	—	93,507	—	94,679
As at 1 January 2017	299	873	—	93,507	—	94,679
Non cash	—	—	4,736	—	391	4,736
Cash inflow	—	—	—	159,976	—	159,976
Cash outflow	(39)	(260)	(4,736)	(142,429)	—	(147,464)
Settlement by the controlling shareholder on behalf of the Group (Note c)	—	—	—	(16,087)	—	(16,087)
As at 31 December 2017	260	613	—	94,967	391	95,840

30 CONTINGENCIES**Corporate guarantee to a related company**

As at 31 December 2015, 2016 and 2017, certain subsidiaries jointly provided corporate guarantee to a bank to secure banking facilities granted to a related company amounting to HK\$11,012,000, HK\$11,028,000 and HK\$44,991,000 respectively. The fair value of the corporate guarantee is considered as insignificant. Such corporate guarantee will be released before Listing.

Performance bonds

As at 31 December 2015, 2016 and 2017, the Group has issued performance bonds in respect of construction contracts through the bank amounting to HK\$4,962,000 and HK\$2,715,000 and HK\$2,753,000 respectively.

As at 31 December 2015, 2016 and 2017, the performance bonds were secured by (a), (b), (c), (d), (e), (g)(i) and (h) as disclosed in Note 25.

Legal case

In 2016, a worker of the Group's subcontractor initiated a personal injuries claim against, inter alia, the subsidiary of the Group. The amount being claimed was approximately HK\$8.5 million. As at the date of this report, the plaintiff and the defendants are attempting to resolve the claim through mediation and the amount of the possible obligation cannot be measured with reliability.

31 COMMITMENTS**Operating leases commitments**

The Group had future aggregate minimum lease payments in relation of storage spaces and office premises under non- cancellable operating lease as follows:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than 1 year	3,656	2,840	2,211
Later than 1 year and no later than 5 years	<u>5,051</u>	<u>2,211</u>	<u>—</u>
	<u><u>8,707</u></u>	<u><u>5,051</u></u>	<u><u>2,211</u></u>

32 SUBSEQUENT EVENTS

Pursuant to the resolutions of the shareholders passed on 11 June 2018 and 14 June 2018, subject to the capitalisation of certain sums standing to the credit of the share premium account of the Company, the authorised share capital of the Company will be HK\$30,000,000 divided into 3,000,000,000 shares, of which 899,999,997 shares will be allotted and issued fully paid or credited as fully paid by way of capitalisation of HK\$8,999,999.97 standing to the credit of the share premium account of the Company on the listing date.

Except as disclosed above and elsewhere in this report, there are no other material subsequent events undertaken by the Company or by the Group after 31 December 2017.

III SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2017 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2017.

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 as if the Share Offer had taken place on 31 December 2017 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted combined net tangible assets 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 as at 31 December 2017 or at any future dates following the Share Offer. It is prepared based on the combined net tangible assets of the Group as at 31 December 2017 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted combined net tangible assets does not form part of the Accountant's Report.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 (Note 1) HK\$'000	Estimated net proceeds from the Share Offer (Note 2) HK\$'000	Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company as at 31 December 2017 HK\$'000	Unaudited pro forma adjusted combined net tangible assets per Share (Note 3) HK\$
Based on an Offer Price of HK\$0.40 per Share	37,391	93,206	130,597	0.11
Based on an Offer Price of HK\$0.50 per Share	37,391	121,254	158,645	0.13

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited combined net tangible assets attributable to owners of the Company as at 31 December 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is the audited combined net assets of the Group attributable to owners of the Company as at 31 December 2017 of HK\$37,391,000, as the Company did not have any intangible assets as at 31 December 2017.
- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.40 and HK\$0.50 per Share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately HK\$20,056,000 which have been accounted for in the combined statement of comprehensive income of the Group prior to 31 December 2017) paid/payable by the Company and takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,200,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 December 2017 but takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme and any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2017.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Anchorstone Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Anchorstone Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by 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 of the Group as at 31 December 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 20 June 2018, in connection with the proposed initial public offering of the shares of the Company. 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.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2017 as if the proposed initial public offering had taken place at 31 December 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 year ended 31 December 2017, on which an accountant's report has been published.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Our firm applies *Hong Kong Standard on Quality Control 1* issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S 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 accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 by the directors of the Company 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.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 June 2018

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 February 2016 under the Companies Law. The Company's constitutional documents consist of its Memorandum and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that 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) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 11 June 2018 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting

two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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 ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made 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 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 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). A call may be made payable either in one lump 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange 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 are 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 is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not 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

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(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 assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, 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 ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making 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 ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, 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

Pursuant to the Articles, payments to any 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 entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 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 contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members*(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, in the case of such members as 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 in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (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, but the absence of a quorum shall not preclude the appointment of a chairman.

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 is 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 is 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) 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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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 whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their 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 moneys 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), 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, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. 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 shareholder and the Companies Law expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its

shares unless they are fully paid. 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. 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 purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 March 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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 of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of 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 sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) 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, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this Prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 2 February 2016. Our Company has established a place of business in Hong Kong at Unit 02, 23/F, Citicorp Centre, No. 18 Whitfield Road, Causeway Bay, Hong Kong on 2 February 2016 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 March 2016. Mr. Lui and Mr. Siu Chi Fung Stephen have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising the Memorandum and the Articles. A summary of certain provisions of the Memorandum and Articles of our Company and relevant aspects of the Companies Law is set out in Appendix III to this Prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Upon its incorporation, one Share was allotted and issued to its initial subscriber. On the same day, the said one Share was transferred to PMG Investments. The following alterations in the share capital of our Company have taken place since the date of incorporation up to the date of this Prospectus:

- (a) on 11 June 2018, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$30,000,000 divided into 3,000,000,000 Shares of HK\$0.01 each by the creation of an additional 2,962,000,000 Shares;
- (b) in connection with the Reorganisation, Pegasus acquired (i) the issued share capital of PMG (HK) from Hoko Development Limited and Prime Scope Holdings Limited on 7 June 2018; and (ii) the issued share capital of PMG from Pacific Marble & Granite Holdings Limited in consideration of (1) the crediting as fully paid at par the one nil-paid subscriber Share in issue and registered in the name of PMG Investments, and (2) the allotment and issuance of an aggregate of two Shares by our Company credited as fully paid to PMG Investments; and
- (c) immediately following completion of the Share Offer and Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of any option(s) which may be granted under the Share Option Scheme or the Over-allotment Option), the authorised share capital of our Company will be HK\$30,000,000 divided into 3,000,000,000 Shares, of which 1,200,000,000 Shares will be allotted and issued fully paid or credited as fully paid and 1,800,000,000 Shares will remain unissued. Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraph headed “Written resolutions of the sole Shareholder dated 11 June 2018 and 14 June 2018” in this appendix, the exercise of the options which

may be granted under the Share Option Scheme and the exercise of the Over-allotment Option, our Directors do not have any present intention to allot and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this Prospectus, there has been no alteration in the share capital of our Company within two years immediately preceding the date of this Prospectus up to the Latest Practicable Date.

3. Changes in the share capital of our subsidiaries

Our principal subsidiaries are set out in the Accountant's Report, the text of which is set out in Appendix I to this Prospectus.

Save as disclosed in the section headed "History and development" in this Prospectus, there are no changes in the registered capital of our subsidiaries during the two years preceding the date of this Prospectus.

4. Written resolutions of the sole Shareholder dated 11 June 2018 and 14 June 2018

By the written resolutions of the sole Shareholder passed on 11 June 2018 and 14 June 2018, among other things:

- (a) our Company approved and adopted the Memorandum of Association with immediate effect and conditionally adopted and approved the Articles with effect from the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$30,000,000 divided into 3,000,000,000 Shares by the creation of an additional 2,962,000,000 Shares, which rank *pari passu* in all respects with the Shares in issue as at the date of such resolutions;
- (c) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and Shares to be allotted and issued as mentioned in this Prospectus (including the Shares which may be allotted and issued pursuant to the exercise of the options to be granted under the Share Option Scheme and the Over-allotment Option); (bb) the Offer Price having been duly determined and the execution and delivery of the Underwriting Agreements on the date as specified in this Prospectus; and (cc) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this Prospectus), 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 before such dates and times) and in any event not later than the date falling 30 days after the date of this Prospectus:

- (i) the Share Offer, the Over-allotment Option and the Share Option Scheme were approved and our Directors were authorised to (aa) allot and issue the Offer Shares pursuant to the Share Offer and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option and any option(s) which may be granted under the Share Option Scheme; (bb) implement the Share Offer and the listing of Shares on the Stock Exchange; and (cc) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
- (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorised to approve any amendment(s) to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK\$8,999,999.97 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 899,999,997 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on the business day immediately preceding the Listing Date (or as they may direct) in proportion (as near as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares to be allotted and issued pursuant to the resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;
- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with shares (including the power to make an offer or agreement, or grant securities which would or might acquire Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or an issue of Shares upon the exercise of the Over-allotment Option or any option(s) which may be granted under the Share Option Scheme or under the Share Offer or the Capitalisation Issue with an aggregate nominal value not exceeding the sum of (aa) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding the Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), (bb) the aggregate nominal amount of the share capital of our Company which

may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (vi) below, 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(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first;

- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding the Shares which may be allotted and issued pursuant to the exercise of the option(s) which may be granted under the Share Option Scheme or the Over-allotment Option), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first; and
- (vi) the general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company bought back by our Company pursuant to the mandate to repurchase Shares as referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding the Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or the Over-allotment Option.

5. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. For details, please see the section headed “History and development” in this Prospectus.

6. Repurchase by our Company of its own securities

This section includes information required by the Stock Exchange to be included in this Prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions of the sole Shareholder passed on 11 June 2018 and 14 June 2018, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or any other stock exchange on which the Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, Shares representing up to 10% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding the Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, the Over-allotment Option, and the Repurchase Mandate shall 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(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchase(s) by us may be made out of profits, share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are bought back or, subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a “core connected person”, which includes a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our Articles, the Listing Rules 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 Company, 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 to 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 or the gearing levels of our Group which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 1,200,000,000 Shares in issue immediately after the Share Offer and Capitalisation issue (but taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), would result in up to 120,000,000 Shares being bought back by our Company during the period in which the Repurchase Mandate remains in force.

(d) General

None of our Directors nor, to the best of their knowledge after having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Share(s) to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 30% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified our Group that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this Prospectus and are or may be material:

- (a) the sale and purchase agreement dated 7 June 2018 and entered into between our Company, Hoko Development, Prime Scope and Pegasus in respect of the sale and purchase of the entire issued share capital of PMG (HK) for the consideration of (i) crediting the one nil-paid subscriber Share issued to PMG Investments (as nominee of Hoko Development and Prime Scope) as fully paid at par; and (ii) the allotment and issuance of one Share to PMG Investments (as nominee of Hoko Development and Prime Scope) by our Company credited as fully paid;

- (b) the sale and purchase agreement dated 7 June 2018 and entered into between our Company, PMG Holdings and Pegasus in respect of the sale and purchase of the entire issued share capital of PMG for the consideration of the allotment and issuance of one Share to PMG Investments (as nominee of PMG Holdings) by our Company credited as fully paid;
- (c) the equity transfer agreement dated 17 January 2016 and entered into between PMG (HK) and PMG Holdings (the “**Equity Transfer Agreement**”), pursuant to which PMG (HK) transferred the 100% equity interest in Shanghai Hongjun to PMG Holdings for a consideration of US\$3,300,000 (as supplemented by (d) to (g) below), details of which are set out in the paragraph headed “History and development — Reorganisation — (ii) Equity transfer of Shanghai Hongjun” in this Prospectus;
- (d) the supplemental agreement to the Equity Transfer Agreement in relation to (c) above dated 4 July 2016 and entered into between PMG (HK) and PMG Holdings pursuant to which the settlement date of the consideration payable under the Equity Transfer Agreement was extended to 25 October 2016;
- (e) the supplemental agreement to the Equity Transfer Agreement in relation to (c) above dated 14 October 2016 and entered into between PMG (HK) and PMG Holdings pursuant to which the settlement date of the consideration payable under the Equity Transfer Agreement was extended to 30 December 2016;
- (f) the supplemental agreement to the Equity Transfer Agreement in relation to (c) above dated 25 November 2016 and entered into between PMG (HK) and PMG Holdings pursuant to which for amending the settlement date of the consideration payable under the Equity Transfer Agreement was extended to 28 June 2017;
- (g) the supplemental agreement to the Equity Transfer Agreement in relation to (c) above dated 28 June 2017 and entered into between PMG (HK) and PMG Holdings pursuant to which the settlement date of the consideration payable under the Equity Transfer Agreement was extended to 30 September 2017;
- (h) the Deed of Non-competition;
- (i) the Deed of Indemnity; and
- (j) the Public Offering Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademark

As at the Latest Practicable Date, our Group has registered the following trademark:

Trademark number	Trademark	Registered owner	Place of registration	Class	Date of registration	Expiry date
303694159	ANCHORSTONE	Anchorstone Holdings Limited	Hong Kong	19, 35, 37 and 42	24 February 2016	23 February 2026

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain name	Registered owner	Date of registration	Expiry date
www.anchorstone.com.hk	Anchorstone Holdings Limited	7 June 2016	8 June 2019

Save as disclosed in this Prospectus, there are no trademarks, patents or other intellectual property rights which are material in relation to the business of our Group.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors' service contracts and letters of appointment

The aggregate annual basic salary (excluding the bonus and allowances mentioned below) of all our executive Directors pursuant to each of their respective service contracts is approximately HK\$3.96 million. Our executive Directors' service contracts have a term of three years commencing from the Listing Date and may be terminated by either party by giving not less than three calendar months' notice in writing. In certain other circumstances, the service contract can also be terminated by us, including but not limited to certain breaches of our Directors' obligations under the contract or certain misconducts. The appointments of the executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles. The salary of each executive Director after each financial year is subject to adjustment as determined by our Company's remuneration committee and approved by a majority of the members of the Board (excluding our Director whose salary is under review).

The non-executive Director has entered into a letter of appointment with the Company for a year commencing from the Listing Date and may be terminated by either party by giving at least one month's notice. The appointment of the non-executive Director is also subject to the provisions of retirement and rotation of Directors under the Articles. Pursuant to the terms of the letter of appointment, the annual director's fee payable to the non-executive Director is approximately HK\$0.24 million.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a period of three years commencing from the Listing Date and may be terminated by either party by giving at least three months' notice. The appointments of the independent non-executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles. Pursuant to the terms of the letters of appointment, the annual director's fee payable to our independent non-executive Directors is approximately HK\$0.72 million.

2. Directors' Remuneration

Our Company's policies concerning remuneration of executive Directors are as follows:

- (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on our Director's experience, responsibility, workload and the time devoted to our Group; and
- (ii) non-cash benefits may be provided at the discretion of the Board to our Directors under their remuneration package.

The aggregate emoluments paid or payable and benefits in kind granted by our Group to our Directors in respect of FY2015, FY2016 and FY2017 was approximately HK\$2.3 million, HK\$3.3 million and HK\$4.3 million, respectively.

Details of our Directors' remuneration are also set out in note 10 of the Accountant's Report set out in Appendix I to this Prospectus.

Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2018, are expected to be approximately HK\$4.9 million.

Saved as disclosed above, no other payments have been made or are payable in respect of FY2015, FY2016 and FY2017 by any member of our Group to any of our Directors.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of FY2015, FY2016 and FY2017 as (i) an inducement to join or upon joining our Company; or (ii) a compensation for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of FY2015, FY2016 and FY2017.

3. Disclosure of Directors' Interests

Immediately following completion of the Share Offer and the Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of any option(s) which may be granted under the Share Option Scheme or the Over-allotment Option), the interests or short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Long positions in the Shares of our Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Percentage of Shareholding
Mr. Lui	Interest in a controlled corporation	900,000,000 (Note 2)	75%

Note:

1. The relevant percentages have been calculated by reference only to the aggregate number of Shares expected to be in issue on the Listing Date. We have therefore assumed that 1,200,000,000 Shares will be in issue on the Listing Date.
2. PMG Investments is owned as to 100% by Mr. Lui. Accordingly, Mr. Lui is deemed to be interested in all the 900,000,000 Shares owned by PMG Investments by virtue of the SFO.

4. Substantial Shareholders

So far as is known to our Directors, immediately following completion of the Share Offer and the Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of any option(s) which may be granted under the Share Option Scheme or the Over-allotment Option), the following persons (not being a Director or the chief executives of our Company) will have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Substantial Shareholder	Capacity/Nature of interest	Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account the exercise of the Over-allotment Option or Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme)	
		Total number of Share(s) held (Note 1)	Approximate percentage of interest in our Company's issued share capital
Mr. Lui	Interest in controlled corporation (Note 2)	900,000,000 Shares (L)	75%
PMG Investments	Beneficial owner	900,000,000 Shares (L)	75%

Notes:

- (1) The Letter "L" denotes the person's long position in the relevant Shares.
- (2) The entire issued share capital of PMG Investments is legally and beneficially owned by Mr. Lui. Accordingly, Mr. Lui is deemed to be interested in 900,000,000 Shares held by PMG Investments by virtue of the SFO.

5. Disclaimers

Save as disclosed in this Prospectus:

- (a) none of our Directors or chief executive of our Company has any interests and short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any of our Directors or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares of our Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the persons listed in the paragraph headed “Qualification and consent of experts” in this section below is interested, directly or indirectly, in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this Prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the persons listed in the paragraph headed “Qualification and consent of experts” below is materially interested in any contract or arrangement with our Group subsisting at the date of this Prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group;
- (e) none of the persons listed in the paragraph headed “Qualification and consent of experts” in this section below 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) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) so far as is known to our Directors, none of our Directors or their associates or any shareholder of our Company (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of the five largest customers of our Group.

D. OTHER INFORMATION**1. Tax and other indemnities**

Each of PMG Investments and Mr. Lui (the “**Indemnifiers**”) has, pursuant to the Deed of Indemnity dated 11 June 2018 referred to in the paragraph headed “B. Further information about our Company’s business — 1. Summary of material contracts” in this appendix, given indemnity in favour of our Company (for ourselves and as trustee for each of our subsidiaries) from and against, among other things, any tax liabilities which might be paid or payable by any member of our Group (“**Group Member(s)**”) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received before the Listing Date, save:

- (a) to the extent that full provision or allowance has been made for such taxation in the audited combined accounts of our Group as set out in Appendix I to this Prospectus;
- (b) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in laws or regulations or practice by the Hong Kong Inland Revenue Department or the tax authorities of the PRC or any other tax or government authorities in any part of the world coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Deed of Indemnity becomes effective (the “**Effective Date**”) with retrospective effect;
- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any Group Member which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Effective Date;
- (d) to the extent that such taxation or liability would not have arisen but for any act or omission by any Group Member (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the date hereof or carried out, made or entered into pursuant to a legally binding commitment created before the Effective Date; and
- (e) to the extent of any provisions or reserve made for taxation in the audited accounts of our Group as set out in Appendix I to this Prospectus which is finally established to be an over-provision or an excessive reserve.

Further, pursuant to the Deed of Indemnity, the Indemnifiers have jointly and severally given indemnity in respect of, among other matters, any liability for Hong Kong estate duty, if any, which might be incurred by any of Group Member by reason of any transfer of property to any of the members of our Group on or before the Listing Date. Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any member of our Group.

In addition, pursuant to the Deed of Indemnity, the Indemnifiers have agreed and undertaken to jointly and severally indemnify the members of our Group and each of them and at all times keep the same indemnified on demand from and against, save to the extent that full provision has

been made as set out in Appendix I to this Prospectus, all claims, damages, losses, costs, expenses, fines, actions and proceedings whatsoever and howsoever arising at any time whether present or in the future as a result of or in connection with:

- (a) any alleged or actual violation or non-compliance by any of our Group Members with any laws, regulations or administrative orders or measures in, among others, Hong Kong on or before the Effective Date by any of our Group Members;
- (b) any and all expenses, payments, sums, outgoing fees, demands, claims, actions, proceedings, judgments, damages, losses, costs (including but not limited to, legal and other professional costs), charges, contributions, liabilities, fines, penalties which any Group Members may incur, suffer or accrue, directly or indirectly from or on the basis of or in connection with any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of the Inland Revenue Ordinance or any other applicable laws, rules and regulations by any Group Members on or before the Effective Date (in the case of our Group Members);
- (c) any irregularities in relation to any corporate documents of any of our Group Members; and
- (d) any actual litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings whether of criminal, administrative, contractual, tortious nature or otherwise instituted by or against our Company and/or any of the Group Members arising from any act, non-performance, omission or otherwise of our Company or any of the Group Members on or before the Effective Date.

2. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules. The fees payable by us in respect of the Sole Sponsor's services as sponsor for the Listing is HK\$4.8 million.

The Sole Sponsor has made an application on our Company's behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this Prospectus. All necessary arrangements have been made for the Shares to be admitted into CCASS.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$44,000 and are payable by our Company. The estimated expenses relating to the Listing which mainly include professional fees to professional parties are approximately HK\$47.8 million and are payable by our Company.

5. No material adverse change

Saved as disclosed in this Prospectus, our Directors confirm that there has been no material adverse change in our Group's financial or trading position since 31 December 2017 (being the date on which the latest audited combined financial information of our Group was prepared).

6. Promoter

Our Company does not have any promoter (as defined in the Listing Rules). Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this Prospectus.

7. Binding Effect

This Prospectus shall have the effect, if an application is made in pursuance of this Prospectus, of binding all persons concerned by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

8. 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). In case of any discrepancies between the English language version and Chinese language version of this Prospectus, the English language version shall prevail.

9. Taxation of holders of Shares*(a) Hong Kong*

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of holding or disposing of or dealing in the Shares. 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 Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

10. Qualification and consent of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this Prospectus:

Name	Qualifications
WAG Worldsec Corporate Finance Limited	a licenced corporations to carry on Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands Attorneys-at-law
Allbright Law Offices (Shenzhen)	Legal advisers to the Company as to PRC laws and certain aspects of PRC laws
China Insights Consultancy Limited	Industry consultant to the Company
C.W. Fan & Co. Limited	Independent internal control adviser of the Company

Each of the experts named above has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its reports and/or letter and/or opinions and/or the references to its name included herein in the form and context in which it is respectively included.

11. Compliance adviser

We have appointed WAG Worldsec Corporate Finance Limited as our compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules. Further details of the appointment are set out in the section headed “Directors and senior management — Compliance adviser” in this Prospectus.

12. Miscellaneous

- (a) Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
 - (v) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of our subsidiaries; and
 - (vi) none of the members of our Group has any outstanding securities or debentures.
- (b) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this Prospectus;
- (c) the principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (d) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (e) in case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail; and
- (f) there is no arrangement under which future dividends are waived or agreed to be waived.

E. SHARE OPTION SCHEME**1. Summary of terms of the Share Option Scheme***(a) Purpose of the Share Option Scheme*

The purpose of this Share Option Scheme is to enable our Company to grant options to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to our Group and to provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) Who may join

Subject to the provisions in the Share Option Scheme, our Directors shall be entitled but shall not be bound at any time within a period of ten (10) years commencing from the date of adoption to make an offer of grant of an option to any person belonging to the following classes of participants (the “Eligible Participant(s)”) to subscribe, and no person other than the Eligible Participant named in such offer may subscribe for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such subscription price as our Directors shall determine:

- (i) any directors (whether executive or non-executive and whether independent or not) and any employee (whether full-time or part-time) of our Group (collectively “Eligible Employee”);
- (ii) any directors (including non-executive directors and independent non-executive directors) of our Company, any Subsidiary or any entity in which our Group holds any equity interest (the “Invested Entity”);
- (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iv) any customer of any member of our Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) 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;

- (vii) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and
 - (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group.
- (c) *Maximum number of Shares*

- (i) Notwithstanding anything to the contrary herein, the maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time.
- (ii) The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 10% of the total number of Shares in issue as at the date of listing of the Shares unless our Company obtains the approval of the Shareholders in general meeting for refreshing the 10% limit (the “Scheme Mandate Limit”) under this Share Option Scheme, provided that the options previously granted (including options outstanding, cancelled or lapsed in accordance with the terms of this Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (iii) Our Company may seek separate approval of the Shareholders in general meeting for refreshing the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company as “refreshed” shall not exceed 10% of the total number of Shares in issue as at the date of the approval of the Shareholders on the refreshment of the Scheme Mandate Limit, provided that options previously granted under the Share Option Scheme or any other share option schemes of our Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company or exercised) will not be counted for the purpose of calculating the limit as “refreshed”.

For the purpose of seeking the approval of Shareholders, a circular containing the information as required under the Listing Rules must be sent to the Shareholders.

- (iv) Our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the Scheme Mandate Limit provided that the proposed grantee(s) of such option(s) must be specifically identified by our Company before such approval is sought and that the proposed grantee(s) and his close associates (or his associates if the proposed grantee is a connected person) shall abstain from voting in the general meeting.

For the purpose of seeking the approval of the Shareholders, our Company must send a circular to the Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and the information as required under the Listing Rules.

(d) Maximum entitlement of each eligible person

No option shall be granted to any eligible person if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue, unless:

- (i) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by resolution of the Shareholders in general meeting, at which the eligible person and his close associates shall abstain from voting;
- (ii) a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules (including the identity of the eligible person, the number and terms of the options to be granted and options previously granted to such eligible person); and
- (iii) the number and terms (including the subscription price) of such option are fixed before the general meeting of our Company at which the same are approved.

(e) Grant of options to connected persons

- (i) The grant of options to a Director, chief executive, management shareholder or substantial shareholder of our Company or any of their respective associates requires the approval of all the independent non-executive Directors (excluding any independent non-executive Director who is a prospective grantee of the option) and shall comply with the relevant provisions of Chapter 17 of the Listing Rules.
- (ii) Where an option is to be granted to a substantial shareholder or an independent non-executive Director (or any of their respective associates), and such grant will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (1) exceeding 0.1% of the total number of Shares in issue at the relevant time of grant; and (2) exceeding an aggregate value (based on the closing price of the Shares on the Stock Exchange on the date of each grant) of HK\$5 million, such grant shall not be valid unless: (aa) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and

containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules (including, in particular, a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the prospective grantee of the option) to the independent Shareholders as to voting); and (bb) the grant has been approved by the independent Shareholders in general meeting (taken on a poll), at which the proposed grantee, his associates and all core connected persons of our Company shall abstain from voting in favour of the grant.

- (iii) Where any change is to be made to the terms of any option granted to a substantial shareholder or an independent non-executive Director (or any of their respective associates), such change shall not be valid unless the change has been approved by the independent Shareholders in general meeting.

(f) Time of acceptance and exercise of an option

An offer of grant of an option may be accepted by an eligible person within the date as specified in the offer letter issued by our Company, being a date not later than 21 days from the date upon which it is made, by which the eligible person must accept the offer or be deemed to have declined it, provided that the period (the “Option Period”) from such date shall not be more than ten years after the date of adoption of the Share Option Scheme or after the termination of the Share Option Scheme.

A consideration of HK\$1 is payable on acceptance of the offer of grant of an option. Such consideration shall in no circumstances be refundable. An option may be exercised in whole or in part by the grantee (or his legal personal representatives) at any time before the expiry of the period to be determined and notified by our Board to the grantee which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period subject to the provisions for early termination as contained in the scheme.

(g) Performance targets

There is no performance target that has to be achieved or minimum period in which the option must be held before the exercise of any option save as otherwise imposed by our Board on the relevant offer of options.

(h) Subscription price for Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as determined by our Board and notified to an eligible person, and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date (the “Offer Date”), which must be a trading day, on which our Board passes a resolution approving the making of an offer of grant of an option to an eligible employee; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of a Share on the Offer Date.

Where an option is to be granted, the date of our Board meeting at which the grant was proposed shall be taken to be the date of the offer of such option. For the purpose of calculating the subscription price, where an option is to be granted less than five trading days after the listing of the Shares on the Stock Exchange, the offer price shall be taken to be the closing price for any Business Day before listing.

(i) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option shall be subject to our Company's constitutional documents for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

(j) Restrictions on the time of grant of options

No option shall be granted after an inside information concerning our Company or any subsidiary has occurred or an inside information matter concerning our Company or any subsidiary has been the subject of a decision until such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's result for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half-year or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option shall be granted.

(k) Period of the Share Option Scheme

Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted. All options granted prior to expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

(l) Rights on cessation of employment

Where the grantee of an outstanding option ceases to be an employee of our Group for any reason other than his death, retirement or the termination of his employment on one or more of the grounds specified in paragraph (m) below before exercising his option in full, his option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise his option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation or termination.

The date of such cessation shall be his last actual working day at his work place with our Company or the relevant subsidiary or the relevant Invested Entity whether salary is paid in lieu of notice or not.

(m) Rights on dismissal

If the grantee of an option is an eligible person and ceases to be an eligible person by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an eligible person.

(n) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an eligible person) has committed any breach of any contract entered into between the grantee on the one part and us or any Invested Entity on the other part; or (2) 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; or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which our Directors have so determined.

(o) Rights on death

Where the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised in full or in part (to the extent not already exercised) by his personal representative(s) within 12 months from the date of death.

(p) Rights on a general offer

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror, our Company 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 options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer).

(q) Rights on winding-up

In the event a notice is given by our Company to its Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each Shareholder give notice thereof to all grantees (together with a notice of existence of this provision) and thereupon, each grantee (or his legal 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 our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than one Business Day immediately prior to the date of the proposed general meeting as 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.

(r) Rights on compromise or arrangement between our Company and its creditors

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and our Shareholders (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to our Shareholders or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his legal 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 or the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his option (to the extent which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his option so as to place the grantee in the same position as nearly as possible as would have been the case had such Shares been subject to such compromise or arrangement.

(s) Reorganisation of capital structure

In the event of any alteration in the capital structure of our Company whilst any option has been granted and remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction), our Company shall (if applicable) make corresponding alterations (if any), in accordance with the Listing Rules and any applicable guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplemental guidance issued on 5 September 2005) to:

- (i) the maximum number of Shares subject to the Share Option Scheme and/or aggregate amount of Shares subject to the options already granted so far as they remain exercisable; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the option(s)(if applicable) provided that:
 - (1) no such alteration shall be made in respect of an issue of Shares or other securities by our Company as consideration in a transaction;
 - (2) any such alterations must be made so that each grantee is given the same proportion of the equity capital of our Company as that to which he was previously entitled;
 - (3) no such alterations shall be made which would result in the subscription price for a Share being less than its nominal value; and
 - (4) any such alterations, save those made on a Capitalisation Issue, shall be confirmed by an independent financial adviser or the auditors in writing to our Directors as satisfying the requirements of paragraphs (2) and (3) above.

(t) Cancellation of options

Our Company may cancel an option granted but not exercised with the approval of our Board. Any options cancelled by approval of our Board cannot be re-granted to the same eligible person.

(u) Termination of the Share Option Scheme

Our Company, by resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Share Option Scheme shall remain in full force and effect. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable or transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle our Company to cancel any outstanding option or part thereof granted to such grantee.

(w) *Lapse of option*

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (l)–(r);
- (iii) in respect of a grantee who is an Eligible Employee, the date on which the grantee ceases to be an Eligible Employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any 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 (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute);
- (iv) in respect of a grantee other than an Eligible Employee, the date on which the Directors shall at their absolute discretion determine that (i) (aa) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (bb) such 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; or (cc) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cession of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(aa) to (cc) above; or
- (v) the date on which the Directors shall exercise our Company's right to cancel the option by reason of a breach by the grantee in respect of that or any other option.

Our Company shall owe no liability to any grantee for the lapse of any option under this paragraph.

(x) *Alterations to the Share Option Scheme*

- (i) The Share Option Scheme may be amended or altered in any respect to the extent allowed by the Listing Rules by resolution of our Board except that the following alteration must be approved by a resolution of the Shareholders in general meeting:
- (1) any change(s) to the definitions of eligible person, grantee and option period;
 - (2) any change(s) to the terms and conditions of the Share Option Scheme to the advantage of the grantees of the options;
 - (3) any alteration(s) to the terms and conditions of the Share Option Scheme which are of a material nature;
 - (4) any change(s) to the terms of options granted; and
 - (5) any change(s) to the authority of our Board in relation to any alteration(s) to the terms of the Scheme except where such alterations take effect automatically under the existing terms of the Share Option Scheme, provided that: (aa) the amended terms of the Share Option Scheme or the options must comply with Chapter 17 of the Listing Rules; and (bb) no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to the option granted under the Scheme.
- (ii) Notwithstanding the other provisions of the Share Option Scheme, the Share Option Scheme may be altered in any respect by resolution of our Board without the approval of the Shareholders or the grantee(s) to the extent such amendment or alteration is required by the Listing Rules or any guideline issued by the Stock Exchange from time to time.
- (iii) 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.

(y) *Conditions*

The Share Option Scheme is conditional upon:

- (i) the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares in issue and the Shares which may fall to be allotted and issued pursuant to the exercise of any option granted under the Share Option Scheme;

- (ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme by the Shareholders in general meeting or by way of written resolution to authorise our Directors to grant options at their absolute discretion thereunder and to allot, issue and deal with Shares pursuant to the exercise of any option(s) granted under the Share Option Scheme; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions referred to in paragraph (y) are not satisfied on or before the date falling thirty (30) days after the date of this Prospectus, the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

2. Present status of the Share Option Scheme

(a) Approval and adoption of the rules of the Share Option Scheme

The rules of the Share Option Scheme, the principal terms of which are set out above, were approved and adopted by the Shareholders on 11 June 2018. The provisions of the Share Option Scheme comply with Chapter 17 of the Listing Rules in all material respects.

(b) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme. The total number of Shares in respect of which options may be granted under the Scheme and any other share option scheme(s) of our Company shall not exceed 120,000,000 Shares, being 10% of the total number of Shares in issue as at the date of listing of the Shares unless our Company obtains the approval of the Shareholders in general meeting for refreshing the said 10% limit under the Share Option Scheme, provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company will not be counted for the purpose of calculating the 10% limit above mentioned.

(c) Grant of option

As at the date of this Prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(d) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents of the experts referred to in the paragraph headed “D. Other information — 10. Qualification and consent of experts” in Appendix IV to this Prospectus; and
- (c) copies of the material contracts referred to in the paragraph headed “B. Further information about our Company’s business — 1. Summary of material contracts” in Appendix IV to this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Robertsons at 57th Floor, The Center, 99 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- 1. the Memorandum of Association and Articles of Association of our Company;
- 2. the Accountant’s Report of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this Prospectus;
- 3. the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this Prospectus;
- 4. the audited combined financial statements of our Group for FY2015, FY2016 and FY2017;
- 5. the rules of the Share Option Scheme;
- 6. the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix III to this Prospectus;
- 7. the Companies Law;
- 8. the legal opinion issued by Allbright Law Offices (Shenzhen), our PRC Legal Adviser, in respect of certain aspects on business operations of our Group;
- 9. the CIC Report;

10. the internal control review report prepared by C.W. Fan & Co. Limited;
11. the material contracts referred to in the paragraph headed “B. Further information about our Company’s business — 1. Summary of material contracts” in Appendix IV to this Prospectus;
12. the written consents referred to in the paragraph headed “D. Other information — 10. Qualification and consent of experts” in Appendix IV to this Prospectus; and
13. the service contracts and letters of appointment referred to in the paragraph headed “Further information about our Directors and substantial Shareholders — Directors’ service contracts and letters of appointment” in Appendix IV to this Prospectus.

ANCHORSTONE

Anchorstone Holdings Limited

基石控股有限公司