

Man Shun Group (Holdings) Limited 萬順集團(控股)有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1746

SHARE OFFER

Sole Sponsor



Sole Bookrunner



Joint Lead Managers



IMPORTANT

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

Man Shun Group (Holdings) Limited

萬順集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

- Number of Offer Shares** : 250,000,000 Shares (subject to the Over-allotment Option)
- Number of Placing Shares** : 225,000,000 Shares (subject to reallocation and the Over-allotment Option)
- Number of Public Offer Shares** : 25,000,000 Shares (subject to reallocation)
- Offer Price** : Not more than HK\$0.60 per Offer Share and expected to be not less than HK\$0.50 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
- Nominal value** : HK\$0.01 each
- Stock code** : 1746

Sole Sponsor



China Galaxy International Securities (Hong Kong) Co., Limited

Sole Bookrunner



Joint Lead Managers



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

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

The Offer Price is expected to be fixed by the Price Determination Agreement between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or before Wednesday, 4 July 2018 or such other date as may be agreed by the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company. The Offer Price will not be more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share. The Sole Bookrunner (for itself and on behalf of the Underwriters) may, with our consent, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the Price Determination Date. In such case, a notice of the reduction of the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.manshugroup.com.hk. If our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by that date or such other date as may be agreed by our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), the Share Offer will not become unconditional and will not proceed.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the U.S. and may not be offered, sold, pledged or transferred within the U.S., except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. securities laws.

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

Prospective investors of the Offer Shares should note that the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) are entitled to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement by means of a notice in writing given by the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) upon the occurrence of any of the events set out in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) terminate the Public Offer Underwriting Agreement, the Share Offer will not proceed and will lapse. Further details of these termination provisions are set out in the section headed "Underwriting" in this prospectus. It is important that prospective investors refer to that section for further details.

EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Share Offer, we will issue an announcement in Hong Kong to be posted on our Company’s website at www.manshugroup.com.hk and the Stock Exchange’s website at www.hkexnews.hk.

Date and time^(Note 1)

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

Application Forms available from 9:00 a.m. on Thursday,
28 June 2018

Latest time to complete electronic applications
under the **HK eIPO White Form** service

through the designated website at www.hkeipo.hk ^(Note 2) 11:30 a.m. on Wednesday,
4 July 2018

Application lists of the Public Offer open ^(Note 3) 11:45 a.m. on Wednesday,
4 July 2018

Latest time for lodging **WHITE** and **YELLOW** Application Forms and
electronic application instructions to HKSCC ^(Note 4) 12:00 noon on Wednesday,
4 July 2018

Latest time to complete payment of **HK eIPO White Form**
applications by effecting internet banking transfer(s) ^(Note 2) 12:00 noon on Wednesday,
4 July 2018

Application lists of the Public Offer close ^(Note 3) 12:00 noon on Wednesday,
4 July 2018

Expected Price Determination Date ^(Note 5) Wednesday,
4 July 2018

Announcement of (i) the final Offer Price; (ii) indications of the level of
interest in the Placing; (iii) levels of applications of the Public Offer;
(iv) basis of allotment of the Public Offer Shares; and
(v) number of Offer Shares reallocated, if any, between the
Public Offer and the Placing to be published on the website
of the Stock Exchange at www.hkexnews.hk and our Company’s
website at www.manshugroup.com.hk ^(Note 6) on or before Tuesday, 10 July 2018

Results of allocations in the Public Offer to be available
at www.tricor.com.hk/ipo/result with a “search by ID” function on Tuesday, 10 July 2018

Announcement of results of allocations in the Public Offer (with successful
applicants’ identification document numbers (if applicable)
to be available through a variety of channels as described in
the paragraph headed “How to Apply for the Public Offer Shares
— 11. Publication of results” in this prospectus) on or before Tuesday, 10 July 2018

EXPECTED TIMETABLE

Despatch/collection of refund cheques or **HK eIPO White Form**
e-Auto Refund payment instructions in respect of wholly or partially unsuccessful
applications and wholly or partially successful applications if the
final Offer Price is less than the price payable on application
(if applicable) on or before *(Notes 7, 8, 9 and 10)* Tuesday, 10 July 2018

Despatch/collection of Share certificates or deposit of Share certificates
into CCASS in respect of wholly or partially successful applications
on or before *(Notes 8, 9 and 10)* Tuesday, 10 July 2018

Dealings in Shares on the Main Board to commence at 9:00 a.m. on Wednesday, 11 July 2018

Notes:

1. All dates and times refer to Hong Kong local dates and times, except as otherwise stated.
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 a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) 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 Wednesday, 4 July 2018, the application lists will not open and close on that day. For further details, please see the paragraph headed “How to Apply for the Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “How to Apply for the Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or before Wednesday, 4 July 2018 or such other date as may be agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on or before the Price Determination Date or such other date as may be agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse immediately. Notwithstanding that the Offer Price may be less than the maximum Offer Price of HK\$0.60 per Offer Share, applicants must pay the maximum Offer Price of HK\$0.60 per Offer Share at the time of application, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, but the surplus application monies will be refunded, without interest, as provided in the section headed “How to Apply for the Public Offer Shares” in this prospectus.
6. Neither our Company’s website nor any of the information contained in our Company’s website forms part of this prospectus.
7. Refund cheques and e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer, and in respect of successful applications if the Offer Price as finally determined is less than the price payable on application. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first named applicant on your Application Form. 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 may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.

EXPECTED TIMETABLE

Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account on Tuesday, 10 July 2018. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) despatched to the address specified in their application instructions through the **HK eIPO White Form** service on or before Tuesday, 10 July 2018, by ordinary post and at their own risk.

8. Applicants who apply for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) or through the **HK eIPO White Form** service by submitting an electronic application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk and have provided all information required may collect their refund cheques (where relevant) and/or share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 10 July 2018 or any other day as announced by us as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

9. Applicants who apply for 1,000,000 Public Offer Shares or more on **YELLOW** Application Form(s) may collect their refund cheques, if any, in person but may not collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
10. 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 paragraph headed "How to Apply for the Public Offer Shares — 14. Despatch/collection of Share certificates and refund monies" in this prospectus.

For further details of the structure and conditions of the Share Offer, you should refer to the section headed "Structure of the Share Offer" in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title to which they relate at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised and has lapsed. If the Share Offer does not become unconditional or either of the Underwriting Agreements is terminated, we will make an announcement as soon as possible. Investors who trade our Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters 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 our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person involved in the Share Offer.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in our 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” in this prospectus. You should read that section carefully before you decided to invest in our Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary” in this prospectus.

OUR BUSINESS

We are an established HVAC E&M engineering services provider in Hong Kong with a long business history dating back to 1996. We generally focus on servicing new residential property development projects as a first-tier or second-tier subcontractor in Hong Kong. Our HVAC E&M engineering services typically involve installation of HVAC systems, which refers to heat, ventilation and air-conditioning systems.

Throughout the Track Record Period, our Group recognised revenue in aggregation of approximately HK\$364.3 million, with approximately (i) HK\$177.6 million from 23 completed projects (including HK\$26.2 million generated from 10 projects which were completed prior to the Track Record Period); and (ii) HK\$186.7 million from 28 projects on hand. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have been awarded two new projects with a total awarded contract sum of approximately HK\$198.3 million. Further details of our projects on hand are set out in the paragraph headed “Business — Our projects” in this prospectus. During the Track Record Period, the contract sum of our awarded projects ranged from approximately HK\$333,000 to approximately HK\$42.1 million, with an average contract sum of approximately HK\$12.4 million.

During the Track Record Period, we secured our projects mainly through tenders by invitation which are non-recurring in nature. We generally adopt a cost-plus pricing model for our project pricing with mark-up determined on a project-by-project basis. Our tender success rates were approximately 69.0%, 87.0% and 40.0% for FY2015, FY2016 and FY2017, respectively. For details of our tendering strategy, please refer to the paragraph headed “Business — Operational workflow — Tender acceptance and award of projects” in this prospectus.

Our projects can be broadly classified into (i) installation services only; and (ii) installation services with HVAC systems procurement. Our projects involving both installation services and HVAC systems procurement generally provide for a lower gross profit margin than those involving installation services only, as we generally provide for a lesser profit margin on HVAC systems procurement. On the other hand, projects involving both installation services and HVAC systems procurement are typically associated with larger contract sum and are more typically awarded to first-tier HVAC E&M engineering subcontractors. During the Track Record Period, our projects involving installation services only generated revenue of approximately HK\$97.5 million, HK\$89.8 million and HK\$87.2 million, which accounted for approximately 76.1%, 81.3% and 69.3% of our total revenue, while projects involving both installation services and HVAC systems procurement generated revenue of approximately HK\$30.6 million, HK\$20.7 million and HK\$38.6 million, which accounted for approximately 23.9%, 18.7% and 30.7% of our total revenue, respectively. We envisage that we will be undertaking more projects involving HVAC systems procurement going forward, which will increase our working capital requirements and may result in a negative impact on our overall gross and net profit margin. Nevertheless, we believe the larger contract sum (thus revenue) associated with projects involving both

SUMMARY AND HIGHLIGHTS

installation services and HVAC systems procurement coupled with other positive attributes associated with acting as first-tier subcontractor will serve to counter the negative impact on our overall profit margin and facilitate us in achieving growth on our overall profitability (in monetary terms). For details, please refer to the paragraphs headed “Business — Business strategies” and “Future Plans and Use of Proceeds — Reasons for the Share Offer and the Listing” in this prospectus.

Due to the nature of our business, progress payments from our customers are paid to us periodically after our progress works are certified by our customers and generally only commence after commencement of our project execution work. During the Track Record Period, we tended to gear towards undertaking projects that did not require procurement of HVAC systems or posting of surety bonds to better conserve and manage our limited working capital as a private company. In this respect, our working capital and liquidity management will become more critical as we undertake more projects of larger contract sum, projects involving HVAC systems procurement, and/or projects with surety bond requirement. If we fail to properly manage our liquidity position in view of such increasing working capital requirements, our cash flows and financial position could be materially and adversely affected.

Customers

During the Track Record Period, our customers are generally property developers (or their designated subsidiaries/group companies), their designated main contractors or the first-tier HVAC E&M engineering service subcontractors of property development projects.

For FY2015, FY2016 and FY2017, our five (or, in the case of FY2015, three) largest customers in aggregate accounted for approximately 100.0%, 100.0% and 100.0% of our total revenue, and our largest customer accounted for approximately 45.6%, 40.8% and 40.4% of our total revenue, respectively.

Suppliers

During the Track Record Period, our suppliers mainly include: (i) suppliers of materials such as HVAC systems and other ancillary consumables such as pipes and fittings; and (ii) subcontractors we engaged to assist us in completing on-site works. For FY2015, FY2016 and FY2017, purchases from our largest supplier amounted to approximately, 20.5%, 26.8% and 20.8% of our total purchases, respectively, while purchases from our five largest suppliers combined amounted to approximately 64.4%, 63.9% and 49.7% of our total purchases, respectively. We do not enter into any long-term supply agreements with our suppliers and we generally engage relevant subcontractors and order relevant materials and consumables on a project-by-project basis. We have maintained three to 16 years of business relationship with most of our five largest suppliers of the Track Record Period. Please refer to the paragraph headed “Business — Suppliers” in this prospectus for details.

COMPETITIVE LANDSCAPE AND MARKET POSITION

According to the Frost & Sullivan Report, the overall HVAC engineering and services market in Hong Kong is fragmented with the top five players accounting for around 17.9%, while our Group ranked 11 and accounted for approximately 1.6% of the market share in terms of revenue contribution in 2017. On the other hand, the residential HVAC engineering and services market in Hong Kong is considered a concentrated market with the top five players in 2017 constituting approximately 49.4% of the market share in terms of revenue contribution, in which our group ranked first in 2017 with 12.0% of the market share in terms of revenue contribution. For details, please refer to the paragraph headed “Industry Overview — Competitive landscape of HVAC engineering and services market in Hong Kong” in this prospectus. Our Directors believe that our Group is well-positioned to capture more business opportunities from the HVAC E&M engineering services industry in Hong Kong.

SUMMARY AND HIGHLIGHTS

COMPETITIVE STRENGTHS

We believe the following competitive strengths, details of which are set out in the paragraph headed “Business — Competitive strengths” in this prospectus, contribute to our success and differentiate us from our competitors: (i) well established presence and proven track record in Hong Kong’s residential HVAC engineering and services market; (ii) established relationship with major customers, suppliers and subcontractors; and (iii) experienced and professional management team.

BUSINESS STRATEGIES

Our principal business objective is to further strengthen our market position as a prime HVAC engineering services provider and to become the preferred choice of first-tier HVAC engineering services subcontractor for property developers in Hong Kong. We intend to achieve our business objective by the following business strategies, details of which are set out in the paragraph headed “Business — Business strategies” in this prospectus: (i) enhance our financial capacity to compete for more HVAC E&M engineering projects and further consolidate our market share; (ii) developing and expanding our HVAC E&M engineering services business and increasing our competitiveness in the private sector; and (iii) adhere to prudent financial management to ensure sustainable growth and capital sufficiency.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table summarises the historical financial information of our Group during the Track Record Period, and should be read in conjunction with the historical financial information included in the Accountants’ Report set out in Appendix I to this prospectus.

Highlights of consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December		
	2015 <i>HK\$’000</i>	2016 <i>HK\$’000</i>	2017 <i>HK\$’000</i>
Revenue	128,030	110,467	125,846
Cost of services	<u>(91,121)</u>	<u>(72,294)</u>	<u>(74,120)</u>
Gross profit	36,909	38,173	51,726
Other income	1,530	1,495	826
Administrative expenses	(13,006)	(17,850)	(19,624)
Listing expenses	—	—	(3,872)
Finance costs	<u>(548)</u>	<u>(537)</u>	<u>(322)</u>
Profit before taxation	24,885	21,281	28,734
Income tax	<u>(4,169)</u>	<u>(3,578)</u>	<u>(5,330)</u>
Profit and total comprehensive income for the year	<u><u>20,716</u></u>	<u><u>17,703</u></u>	<u><u>23,404</u></u>

SUMMARY AND HIGHLIGHTS

During the Track Record Period, a majority of our revenue was contributed by installation services only type of projects, accounting for approximately 76.1%, 81.3% and 69.3% of our total revenue respectively. The following table sets forth the breakdown of our revenue, gross profit and gross profit margin by type of services for the Track Record Period:

	FY2015				FY2016				FY2017			
	Revenue		Gross profit margin		Revenue		Gross profit margin		Revenue		Gross profit margin	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Installation services only	97,457	76.1	29,286	30.0	89,790	81.3	32,711	36.4	87,216	69.3	42,749	49.0
Installation services with HVAC systems procurement	<u>30,573</u>	<u>23.9</u>	<u>7,623</u>	<u>24.9</u>	<u>20,677</u>	<u>18.7</u>	<u>5,462</u>	<u>26.4</u>	<u>38,630</u>	<u>30.7</u>	<u>8,977</u>	<u>23.2</u>
Total	<u>128,030</u>	<u>100.0</u>	<u>36,909</u>	<u>28.8</u>	<u>110,467</u>	<u>100.0</u>	<u>38,173</u>	<u>34.6</u>	<u>125,846</u>	<u>100.0</u>	<u>51,726</u>	<u>41.1</u>

Our revenue decreased from approximately HK\$128.0 million for FY2015 to HK\$110.5 million for FY2016, primarily attributable to the decrease in project revenue which in turn was mainly because we had a number of large scale projects with substantial portion of contract revenue recognised in FY2015 in accordance with their respective project execution progress. Our revenue increased to approximately HK\$125.8 million for FY2017, mainly because a significant portion of revenue associated with certain large scale projects and a significantly larger amount of revenue from variation orders was recognised during FY2017. For FY2015, FY2016 and FY2017, our overall gross profit was approximately HK\$36.9 million, HK\$38.2 million and HK\$51.7 million, respectively, and our gross profit margin was approximately 28.8%, 34.6% and 41.1% for the respective years. The higher gross profit margin for FY2017 was partly attributable to the significant increase in revenue associated with variation orders from approximately HK\$2.4 million for FY2016 to approximately HK\$15.7 million for FY2017, which accounted for approximately 12.5% of the total revenue for FY2017. If revenue associated with variation orders were to be excluded, we would have had approximately HK\$110.1 million of revenue, HK\$36.0 million of gross profit and HK\$7.7 million of net profit for FY2017. For details, please refer to the paragraph headed “Financial Information — Review of historical results of operations” in this prospectus.

Our administrative expenses exhibited a trend of continuous increase from approximately HK\$13.0 million for FY2015 to approximately HK\$17.9 million for FY2016 and further to approximately HK\$19.6 million for FY2017, mainly contributed by the increase in our administrative and management staff costs including Directors’ emoluments throughout the Track Record Period and, for FY2016, our increase in rent and rates of HK\$0.7 million and the incurrence of the obliterated and non-recurrent tax penalty of approximately HK\$0.8 million.

SUMMARY AND HIGHLIGHTS

Highlights of consolidated statements of balance sheets

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	2,435	3,865	1,592
Current assets	67,652	57,461	86,530
Current liabilities	35,769	35,382	39,409
Non-current liabilities	1,621	1,171	536
Net current assets	31,883	22,079	47,121
Net assets	32,697	24,773	48,177

As at 31 December 2015, 31 December 2016 and 31 December 2017, our Group recorded net current assets of approximately HK\$31.9 million, HK\$22.1 million and HK\$47.1 million, respectively. The decrease in net current assets from that as of 31 December 2015 to 31 December 2016 was mainly attributable to, among other things, the decrease in trade and other receivables, amounts due from related companies and amounts due from Directors, which was partly offset by the increase in cash and cash equivalents and decrease in bank loans and overdrafts. The increase in net current assets from that as of 31 December 2016 to 31 December 2017 was mainly attributable to, among other things, the increase in trade and other receivables and net contract assets coupled with a decrease in tax payable, partly offset by the increase in bank loans and overdrafts as well as cash and cash equivalents. For details, please refer to the paragraph headed “Financial Information — Liquidity and capital resources — Net current assets” in this prospectus.

Highlights of consolidated cash flows statements

	FY2015	FY2016	FY2017
	HK\$'000	HK\$'000	HK\$'000
Operating cash flows before movements in working capital	<u>26,050</u>	<u>22,643</u>	<u>29,971</u>
Net cash generated from/(used in) operating activities	28,012	27,338	(28,056)
Net cash (used in)/generated from investing activities	(599)	(1,344)	2,059
Net cash (used in)/generated from financing activities	<u>(26,166)</u>	<u>(11,940)</u>	<u>5,261</u>
Net increase/(decrease) in cash and cash equivalents	1,247	14,054	(20,736)
Cash and cash equivalents at the beginning of the year	<u>(5,379)</u>	<u>(4,132)</u>	<u>9,922</u>
Cash and cash equivalents at the end of the year	<u><u>(4,132)</u></u>	<u><u>9,922</u></u>	<u><u>(10,814)</u></u>

Net cash generated from (used in) operations primarily consisted of profit before taxation adjusted for depreciation of property and equipment, bank interest income, finance costs, and gain in disposal of plant and equipment, net effect of changes in working capital and Hong Kong profits tax paid. Our major operating cash inflows are derived mainly from the receipt of payments from contract works undertaken by us and our cash used in operating activities mainly include subcontracting fees, material costs, direct labour cost and general administrative expenses.

SUMMARY AND HIGHLIGHTS

We had net cash generated from operating activities of approximately HK\$28.0 million for FY2015 and approximately HK\$27.3 million for FY2016 but net cash used in operating activities of approximately HK\$28.1 million for FY2017, which was mainly contributed by the combined effect of the increase in trade and other receivables and net contract assets as well as payment of Hong Kong profit tax, partially offset by the increase in trade and other payables and an increased level of operating cash flows before movements in working capital. For details, please refer to the paragraph headed “Financial Information — Liquidity and capital resources — Cash flow” in this prospectus.

We had net cash used in the financing activities of approximately HK\$26.2 million for FY2015 and HK\$11.9 million for FY2016 but net cash generated from financing activities of approximately HK\$5.3 million for FY2017, mainly as a result of a net increase in bank borrowings coupled with no dividend paid for FY2017. For details, please refer to the paragraph headed “Financial Information — Liquidity and capital resources — Cash flow” in this prospectus.

Major financial ratios

As at/for the year ended 31 December	2015	2016	2017
Profitability ratios			
Gross profit margin ⁽¹⁾	28.8%	34.6%	41.1%
Net profit margin ⁽²⁾	16.2%	16.0%	18.6%
Return on equity ⁽³⁾	63.4%	71.5%	48.6%
Return on assets ⁽⁴⁾	29.6%	28.9%	26.6%
Current ratio ⁽⁵⁾	1.9 times	1.6 times	2.2 times
Gearing ratio ⁽⁶⁾	45.6%	46.0%	54.4%

Notes:

1. Gross profit margin is calculated by dividing the gross profit with the revenue for the relevant year multiplied by 100%. Gross profit margin for each of FY2015, FY2016 and FY2017 would have been approximately 26.4%, 33.1% and 32.7%, respectively, if revenue associated with variation orders were to be excluded.
2. Net profit margin is calculated by dividing the net profit with the revenue for the relevant year multiplied by 100%. Net profit margin for each of FY2015, FY2016 and FY2017 would have been approximately 13.3%, 14.1% and 7.0%, respectively, if revenue associated with variation orders were to be excluded.
3. Return on equity is calculated by dividing the net profit with the total equity as at the end of the relevant year multiplied by 100%.
4. Return on assets is calculated by dividing the net profit with the total assets as at the end of the relevant year multiplied by 100%.
5. Current ratio is calculated by dividing the current assets with the current liabilities as at the end of the relevant year.
6. Gearing ratio is calculated by dividing the total borrowings with the total equity as at the end of relevant year multiplied by 100%.

Please refer to the paragraph headed “Financial Information — Analysis of selected financial ratios” in this prospectus for further analysis.

SUMMARY AND HIGHLIGHTS

SHAREHOLDER INFORMATION

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and or any options which may be granted under the Share Option Scheme), our ultimate Controlling Shareholders, Mr. Tony Cheung and Mr. Gary Cheung, acting in concert as a group and through Prime Pinnacle (an investment holding company owned as to 51% by Mr. Tony Cheung and 49% by Mr. Gary Cheung), indirectly held in aggregate 75% interest in our Company. Please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus for further details. Mr. Tony Cheung and Mr. Gary Cheung have entered into the Concert Party Deed on 12 March 2018, the details of which are set out in the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus.

THE SHARE OFFER AND THE OFFER STATISTICS

The Share Offer comprises the Public Offer of 25,000,000 Shares initially offered in Hong Kong, and the Placing of 225,000,000 Shares (subject, in each case, to re-allocation and the Over-allotment Option on the basis as described in the section headed “Structure of the Share Offer” in this prospectus).

	Based on the minimum indicative Offer Price of HK\$0.50 per Offer Share	Based on the maximum indicative Offer Price of HK\$0.60 per Offer Share
Market capitalisation (<i>Note 1</i>)	HK\$500.0 million	HK\$600.0 million
Unaudited pro forma adjusted net tangible assets per Share (<i>Note 2</i>)	HK\$0.15	HK\$0.17

Notes:

1. The calculation of the market capitalisation of the Shares is based on 1,000,000,000 Shares in issue and to be issued immediately after completion of the Capitalisation Issue and the Share Offer and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.
2. The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after adjustments referred to in the section headed “Unaudited Pro Forma Financial Information — A. Unaudited pro forma adjusted net tangible assets” in Appendix II to this prospectus.

SUMMARY AND HIGHLIGHTS

FUTURE PLANS AND USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer, assuming the Over-allotment Option is not exercised, after deducting related underwriting fees and estimated expenses in connection with the Share Offer and assuming an Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share), will be approximately HK\$109.5 million. Our Directors presently intend to apply such net proceeds as follows:

Intended applications	Approximate amount of net proceeds
Procurement of HVAC systems for our projects	HK\$93.7 million or approximately 85.6%
Taking out surety bonds for projects we plan to secure	HK\$5.0 million or approximately 4.5%
General working capital	HK\$10.8 million or approximately 9.9%

For details of our future plans and use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. Please also refer to the paragraph headed “Future Plans and Use of Proceeds — Reasons for the Share Offer and the Listing” in this prospectus for detailed reasons for our Listing.

LISTING EXPENSES

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$28.0 million (based on the mid-point of the indicative Offer Price range of HK\$0.55 per Offer Share), of which approximately HK\$16.1 million has been or is expected to be recognised in our consolidated statements of profit or loss and other comprehensive income, and approximately HK\$11.9 million is expected to be capitalised upon Listing. Listing expenses of approximately HK\$3.9 million were reflected in our consolidated statements of profit or loss and other comprehensive income for the Track Record Period and an additional amount of approximately HK\$12.2 million is expected to be recognised in our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period and for the year ending 31 December 2018. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from the estimate. Our Directors expect that our financial results for the year ending 31 December 2018 will be adversely impacted by the non-recurring listing expenses to be charged to our consolidated statements of profit or loss and other comprehensive income.

DIVIDENDS

During FY2015, FY2016 and FY2017, members of our Group declared dividends in aggregation of approximately HK\$9.5 million, HK\$25.6 million and nil, respectively, to the then shareholders. Such dividends were fully settled during the Track Record Period. We declared a dividend on 30 April 2018 to our then sole Shareholder in an amount of approximately HK\$18.0 million, of which approximately HK\$15.1 million was set off against amounts due from Directors as at 31 December 2017 and approximately HK\$2.9 million will be settled by cash by internal resources before Listing.

SUMMARY AND HIGHLIGHTS

A decision to declare or pay any dividend in the future and the amount of any dividends depends on a number of factors, including but not limited to our operations and earnings, capital requirements and surplus, cash flow position, general financial condition and other factors that our Directors deem relevant. We do not have a fixed dividend policy and our Company does not have any predetermined dividend ratio.

PRINCIPAL RISK FACTORS

Our Group believes that there are certain risks and uncertainties involved in our operations, some of which are beyond our Group's control. Potential investors are advised to read the section headed "Risk Factors" in this prospectus carefully before making any investment decision in the Share Offer. Some of our major risks include: (i) our revenue is mainly derived from HVAC E&M engineering projects which are non-recurrent in nature and any failure of our Group to secure tender contracts would affect our operations and financial results; (ii) error or inaccurate estimation of project execution timeframe and/or project duration and/or costs may result in substantial loss incurred by us or adversely affect our revenue and profitability; (iii) we rely on our major customers; (iv) our revenue and profit margin are subject to fluctuations driven by various factors including but not limited to variation orders, and our past revenue and profit margin may not be indicative of our future financial performance; (v) our strategy to undertake more projects as first-tier HVAC E&M subcontractor and diversify our customer base could lead to lower gross and net profit margin going forward; and (vi) we may not be able to bill and receive the full amount of gross amount due from customers for contract work. If progress payment or retention money is not paid to us in full as a result of disputes over our work done, our liquidity position may be adversely affected.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on servicing new residential property development projects as first-tier or second-tier subcontractor in Hong Kong. We have been awarded two new projects with a total awarded contract sum of approximately HK\$198.3 million, comprising ST0048 (installation services with HVAC systems procurement) with a contract sum of HK\$189.9 million and STP18001 (installation services only) with a contract sum of HK\$8.4 million, both of which were in the pre-site work stage and had not generated notable revenue (if any) as of the Latest Practicable Date. Please refer to the table set out in the paragraph headed "Business — Our projects — Projects on hand" in this prospectus for further details. As at the Latest Practicable Date, we had 30 projects on hand with aggregate contract sum of approximately HK\$570.8 million, of which approximately HK\$186.7 million was recognised as revenue during the Track Record Period. As at the Latest Practicable Date, all projects on hand have continued to contribute revenue to our Group and none of them have had any material interruption.

Our Directors consider that our Group is well-positioned as a HVAC engineering services provider for new residential property development projects and believe that the increase in the investments made by property developers as well as the market conditions and trend in the property development market in Hong Kong would favour the growth of our Group and the demand for our services. We have been expending significant efforts to lessen our customer concentration, including adjusting our project selection strategy to increasingly weigh in customer base diversification. As at the Latest Practicable Date, we were invited and accordingly submitted tender to a new customer, which is a long established property developer in Hong Kong, for an installation services with HVAC systems procurement type of project.

SUMMARY AND HIGHLIGHTS

As at the Latest Practicable Date, we have renewed our registrations of registered electrical contractor, minor works contractor and registered subcontractors under the voluntary subcontractor registration scheme. Please refer to the paragraph headed “Business — Licences and permits” in this prospectus for further details.

MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraphs headed “Listing expenses”, “Summary of historical financial information” and “Dividends” in this section above, after performing sufficient due diligence works which our Directors consider appropriate and after due and careful consideration, our Directors confirmed that since 31 December 2017 (being the date on which our latest consolidated financial information were prepared as set out in the Accountants’ Report in Appendix I to this prospectus) and up to the date of this prospectus, (i) there had been no material adverse change affecting the industry in which our Group operates in Hong Kong which could have a material and adverse impact on our business and financial conditions and our operating results; (ii) there was no material adverse change in our financial or trading position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants’ Report as set out in Appendix I to this prospectus.

LITIGATION AND REGULATORY COMPLIANCE

Our Directors confirmed that, to the best of our Directors’ knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date (i) our Group was not subject to any ongoing employee’s compensation claim or personal injury claim; and (ii) during the Track Record Period and up to the Latest Practicable Date, our Group recorded three workplace accidents whereby our employees sustained minor personal injuries which may give rise to potential employees’ compensation or personal injury claims. Please refer to the paragraph headed “Business — Litigation and potential claims” in this prospectus for further details.

NON-COMPLIANCE

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, other than the disclosure in the paragraph headed “Business — Internal control and risk management” in this prospectus, there was no non-compliance incident which constitute material non-compliance or systemic non-compliance and our Group has obtained all the approvals, permits, consents, licences and registrations required for our business and operations in Hong Kong and all of them are in force.

DEFINITIONS

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

“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“Air Pollution Control Ordinance”	Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on 8 June 2018 with effect from the Listing Date and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Banking Ordinance”	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Board”	the board of Directors
“Building Authority”	has the meaning ascribed to it under the Buildings Ordinance and, as at the Latest Practicable Date, means the Director of Buildings of the Government
“Buildings Department”	the Buildings Department of the Government
“Buildings Ordinance”	the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Building (Minor Works) Regulation”	the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public

DEFINITIONS

“Capitalisation Issue”	the issue of 749,999,800 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 8 June 2018” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Census and Statistics Department”	the Census and Statistics Department of the Government
“City Flourish”	City Flourish Investments Limited (城茂投資有限公司), a company incorporated in Seychelles on 3 November 2015 with limited liability and our directly wholly-owned subsidiary
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), which came into effect on 3 March 2014, 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

DEFINITIONS

“Company” or “our Company”	Man Shun Group (Holdings) Limited (萬順集團(控股)有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 11 April 2017
“Compliance Adviser”	Messis Capital Limited, a licenced corporation for carrying on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Concert Party Deed”	the concert party deed dated 12 March 2018 and entered into between Mr. Tony Cheung and Mr. Gary Cheung, details of which are set out in the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the case of our Company and unless the context otherwise requires, means Mr. Gary Cheung, Mr. Tony Cheung and Prime Pinnacle
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“Deed of Indemnity”	the deed of indemnity dated 8 June 2018 and entered into by the Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) as described in the paragraph headed “Statutory and General Information — Other information — 13. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 8 June 2018 and entered into by the Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) as described in the paragraph headed “Relationship with our Controlling Shareholders — Deed of non-competition” in this prospectus
“Director(s)”	the director(s) of our Company
“Electricity Ordinance”	the Electricity Ordinance (Chapter 406 of the Law of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Employees’ Compensation Ordinance”	the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Employment Ordinance”	the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Environmental Impact Assessment Ordinance”	the Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Frost & Sullivan”	Frost & Sullivan International Limited, an independent market research agency
“Frost & Sullivan Report”	a market research report commissioned by us and prepared by Frost & Sullivan on the overview of the industries in which our Group operates
“FY2015”	the financial year ended 31 December 2015
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ending 31 December 2018
“FY2019”	the financial year ending 31 December 2019
“Government”	the government of Hong Kong
“ GREEN Application Form”	the application form to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we”, “us” or “our”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries pursuant to the Reorganisation, its present subsidiaries and the businesses operated by such subsidiaries
“ HK eIPO White Form ”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the HK eIPO White Form Service Provider at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company as specified on the designated website at www.hkeipo.hk

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “HKD” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Housing Authority” or “HA”	the Hong Kong Housing Authority
“independent third party(ies)”	individual(s) or company(ies) who or which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are independent of and not connected with (within the meaning of the Listing Rules) any of our Company, the directors, chief executive or substantial shareholders of our Company and our subsidiaries or any of their respective associates
“Inland Revenue Ordinance”	the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Internal Control Adviser”	CHENG & CHENG LIMITED, a firm of certified public accountants in Hong Kong and an independent third party
“IRD”	the Inland Revenue Department of the Government
“Joint Lead Managers”	Quasar, China Galaxy International and Wellington Financial Limited
“Latest Practicable Date” or “LPD”	19 June 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus
“Legal Counsel”	Mr. Chan Chung, barrister-at-law of Hong Kong, who is an independent third party
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange

DEFINITIONS

“Listing Date”	the date, expected to be on or about Wednesday, 11 July 2018, on which dealings in the Shares first commence on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, modified and supplemented from time to time
“Main Board”	the Main Board of the Stock Exchange
“Man Tung AC E&M”	Man Tung Air-Conditioning E&M Limited (萬通冷氣機電有限公司), a limited liability company incorporated in Hong Kong on 9 April 2008 and our indirect wholly-owned subsidiary
“Man Tung AC Works”	Man Tung Air-Conditioning Works Limited (萬通冷氣工程有限公司), a limited liability company incorporated in Hong Kong on 19 November 1996 and our indirect wholly-owned subsidiary
“Mandatory Provident Fund Schemes Ordinance”	Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company conditionally adopted on 8 June 2018 with effect from the Listing Date and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Mr. Gary Cheung”	Mr. CHEUNG Yuen Chau (張元秋), an executive Director, the chief executive officer of our Company and one of our Controlling Shareholders
“Mr. Tony Cheung”	Mr. CHEUNG Yuen Tung (張元通), an executive Director, the chairman of the Board and one of our Controlling Shareholders
“Occupational Safety and Health Ordinance”	the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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\$0.60 and expected to be not less than HK\$0.50 per Offer Share at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer, such price to be determined by the Price Determination Agreement to be entered into between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date

DEFINITIONS

“Offer Share(s)”	the Public Offer Shares and the Placing Shares together with, where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“Operating subsidiaries”	Man Tung AC E&M, Man Tung AC Works and Shun Tung
“Over-allotment Option”	the option to be granted by our Company under the Placing Underwriting Agreement to the Placing Underwriters, exercisable by the Sole Bookrunner (for itself and on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 37,500,000 additional Offer Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, at the Offer Price to, among other things, cover over-allocations (if any) in the Placing, as described in the paragraph headed “Structure of the Share Offer — The Over-allotment Option” in this prospectus
“Placing”	the conditional placing of the Placing Shares at the Offer Price as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	225,000,000 new Shares (subject to reallocation and the Over-allotment Option) initially being offered for subscription under the Placing, as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement to be entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Placing Underwriters relating to the Placing
“PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into by our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price

DEFINITIONS

“Price Determination Date”	the date, expected to be on or around Wednesday, 4 July 2018, or such other date as may be agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), on which the Offer Price is determined by entering into the Price Determination Agreement
“Prime Pinnacle”	Prime Pinnacle Limited, a limited liability company incorporated in Seychelles on 8 March 2017, and one of our Controlling Shareholders
“Public Offer”	the offer of the Public Offer Shares for subscription by members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	25,000,000 new Shares (subject to reallocation) initially being offered for subscription under the Public Offer, as described in the section headed “Structure of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer whose names are set out in the section headed “Underwriting” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 27 June 2018 relating to the Public Offer and entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Receiving bank”	Bank of China (Hong Kong) Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation arrangements implemented by our Group in preparation for the Listing which is more particularly described in the section headed “History, Development and Reorganisation” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“Seychelles”	Republic of Seychelles
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in Hong Kong dollars and listed on the Main Board
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 8 June 2018, the principal terms of which are summarised in the paragraph headed “Statutory and General Information — Other information — 12. Share Option Scheme” in Appendix IV to this prospectus
“Shun Tung”	Shun Tung Engineering Company Limited (順通冷氣電機工程有限公司), a limited liability company incorporated in Hong Kong on 6 November 1998 and our indirect wholly-owned subsidiary
“Sole Bookrunner” or “Quasar”	Quasar Securities Co., Limited, a licenced corporation for carrying on Type 1 (dealing in securities) regulated activity under the SFO
“Sole Sponsor” or “China Galaxy International”	China Galaxy International Securities (Hong Kong) Co., Limited, a licenced corporation for carrying on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Stabilising Manager”	Quasar
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager or its affiliate and Prime Pinnacle on or about the Price Determination Date as further described in the paragraph headed “Structure of the Share Offer — The Over-allotment Option” in this prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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, modified and supplemented from time to time
“Tax Adviser”	RSM Tax Advisory (Hong Kong) Limited
“Track Record Period”	comprises FY2015, FY2016 and FY2017

DEFINITIONS

“Treasure Express”	Treasure Express Limited (寶展有限公司), a company incorporated in Seychelles on 9 December 2015 with limited liability and our direct wholly-owned subsidiary
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “USD”	United States dollars, the lawful currency of the U.S.
“Waste Disposal Ordinance”	the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“ WHITE Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the applicant’s own name
“ YELLOW Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“sq.ft.”	square foot/feet
“sq.m.”	square metre(s)
“%”	per cent

Unless otherwise specified, all references to any shareholding in our Company in this prospectus assume the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised and that no Shares are allotted and issued pursuant thereto.

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

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

GLOSSARY

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

“CAGR”	compound annual growth rate
“CIC” or “Construction Industry Council”	the Construction Industry Council in Hong Kong, a statutory body established on 1 February 2007 pursuant to the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)
“Contractor List”	List of Contractors for Public Works
“E&M engineering” or “E&M”	electrical and mechanical engineering
“EMSD”	the Electrical and Mechanical Services Department of the Government
“first-tier subcontractor(s)”	subcontractor(s) which directly participates in tender invitation of property developer or is designated as HVAC main contractor
“GDP”	gross domestic product
“HVAC” or “HVAC System”	heating, ventilation and air-conditioning system
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001:2015”	ISO 9001:2015 is an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting customer requirements. It prescribes requirements for ongoing improvement of quality assurance in supply, installation and maintenance of air conditioning system
“private sector projects”	works contracts that are not public sector projects
“public sector projects”	works contracts that originate from the Government or statutory bodies
“quotation(s)”	the type of contracts with customers secured by request for quotation from customers, further details of which are set out in the paragraph headed “Business — Operational workflow — Pre-contract phase — Tender acceptance and award of projects — Alternative means of procuring contracts” in this prospectus

GLOSSARY

“Registered Electrical Contractor” or “REC”	registered electrical contractor with the EMSD
“schedule of rates”	a set of general regulations and special conditions governing the execution of work and payment for works performed
“second-tier subcontractor(s)”	subcontractor(s) that undertakes projects from first-tier subcontractor(s)
“SOPL”	the Security of Payment Legislation for the Construction Industry, details of which are set out in the paragraph headed “Regulatory Overview — G. Others” in this prospectus
“Specialist List”	List of Approved Suppliers of Materials and Specialist Contractors for Public Works
“SRS”	the Subcontractor Registration Scheme of the CIC
“subcontractor”	in respect of a construction project, a contractor who is appointed by the main contractor or by another subcontractor involved in the construction and who generally carries out specific work tasks of the construction
“tender contract(s)”	the type of contracts with customers obtained by tendering, the general terms of which are set out under the paragraph headed “Business — Customers — Major terms of engagement with our customers” in this prospectus
“WBDB”	the Works Branch of the Development Bureau of the Government, which maintains the Contractor List and the Specialist List to monitor the eligibility of a contractor to tender for Government contracts

FORWARD-LOOKING STATEMENTS

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

- our Group’s business prospects, strategies, plans, objectives and goals;
- the business opportunities that our Group may pursue;
- the amount and nature of, and potential for, future development of our Group’s business;
- our Company’s dividend distribution plans;
- the regulatory environment as well as the general industry outlook for, and future development of, the industry in which our Group operates; and
- the trend of the economy of Hong Kong in general.

These statements are based on several assumptions, including (without limitation) those regarding our Group’s present and future business strategies and the environment in which our Group will operate in the future.

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

Subject to the requirements of the applicable laws, rules and regulations, our Company does 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 our Company expects, or at all. Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions be proved to be incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

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

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Share Offer. You should pay particular attention to the fact that the legal and regulatory environment in Hong Kong may differ in some respects from that which prevails in other countries. The business, financial condition and results of operations of our Group could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of our Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our revenue is mainly derived from HVAC E&M engineering projects which are non-recurrent in nature and any failure of our Group to secure tender contracts would affect our operations and financial results

During the Track Record Period, all our revenue was derived from the provision of HVAC E&M engineering services on a project-by-project basis which is not recurring in nature. We did not enter into any long term agreement or master service agreement with our customers as at the Latest Practicable Date and a vast majority of our projects during the Track Record Period were awarded through competitive tendering. We generally submit new tenders or bids for new projects from time to time and there is a risk that we may not succeed in tendering for new projects upon completion of our projects on hand or there is a significant reduction of projects for bidding in the future. As such, the number and scale of HVAC E&M engineering projects awarded to us and the amount of revenue derived from such projects may vary significantly from period to period. If our projects decrease significantly in the future, our revenue will decrease accordingly. In that event, our operations and financial condition would be adversely affected. Moreover, there is no assurance that the terms and conditions of our future projects would be comparable to our existing projects or our tenders would be selected by customers. In a competitive tendering process, we may have to lower our service fees or offer more favourable terms to our customers in order to increase the competitiveness of our tenders. If we are unable to control our costs accordingly and maintain our competitiveness, our results of operations would be adversely affected. Furthermore, so far as our Directors are aware, most of our customers have maintained an evaluation system to ensure that the service providers meet certain standards of management, industry expertise, financial capability, reputation and regulatory compliance which may change from time to time. There is no assurance that we will continue to meet our customers' tendering requirements in the future and in which case we may not be granted new projects and our reputation, business operations, financial condition and results of operations may be adversely affected.

In addition, for FY2015, FY2016 and FY2017, we achieved a tender success rate of approximately 69.0%, 87.0% and 40.0% respectively. As part of our strategy to expand our customer base and lessen our customer concentration, we have been adjusting our project selection strategy to increasingly weigh in customer base diversification, and have been expending our efforts in exploring and securing projects from new customers through participation of competitive tendering. Such efforts, however, may negatively affect our tender success rate as we increase our tendering frequency and respond to tender invitations from customers that we may have no prior business relationship. There is no assurance that our Group could achieve the same or higher tender success rate in the future as we did in the past. It may be difficult to forecast the volume of our future business based on our historical tender success rates.

RISK FACTORS

Error or inaccurate estimation of project execution timeframe and/or project duration and/or costs may result in substantial loss incurred by us or adversely affect our revenue and profitability

Our HVAC E&M engineering projects are normally awarded through a competitive tendering process. We determine a tender price by estimating our costs under the project duration as specified in the tender invitation documents. There is no assurance that tenders submitted by us would contain no mistake and error. Such mistakes and errors may be in the form of inaccurate estimation, oversight of important tender terms, inadvertent typographical errors, errors in calculations, etc.. In case of projects awarded to us on terms based on our mistakes or errors in the submitted tender, we may be bound by the contract to undertake the project with consequential loss.

Inaccurate estimation on project schedule, project costs and technical difficulties in our tender preparation process may result in cost overruns when we actually execute the awarded project. In some cases customers may request for variation in the scope of work which are to be accepted on the basis that the respective variation orders are agreed upon. Therefore, it is crucial for us to estimate and control our costs accurately in each project. Many factors will affect the time taken and the costs actually involved in completing projects undertaken by us, such as shortage and cost escalation of labour and materials, difficult geological conditions, adverse weather conditions, variations to the construction plans instructed by customers, stringent technical requirements, threatened claims and material disputes with main contractors, subcontractors and suppliers, accidents, and changes in the Government's policies. Other unforeseen problems or circumstances may also occur during project execution. If any of such factors arises and remains unresolved, completion of our project works may be delayed or we may be subject to cost overruns or our customers may even be entitled to unilaterally terminate the contract.

A property development project may be delayed because of delays from obtaining specific permits or approvals from relevant agencies or authorities of the Government, significant changes to architectural or layout designs of the property, changes in construction and/or time-to-market schedule of the property developer and other factors that are exogenous to us which may result in extension of our project timeframe and/or delay in our project commencement and/or completion time. Failure to complete our contracted HVAC E&M engineering works according to specifications and quality standards may result in disputes, contract termination, liabilities and/or lower-than-anticipated returns on the project concerned. Such delays or failure to complete and/or unilateral termination of a contract by customers may cause our revenue or profitability to be lower than we originally expected. We cannot guarantee that we will not encounter cost overruns or delays on our current and future projects. If such cost overruns or delays occur, we may experience increases in costs exceeding our budget or be required to pay liquidated damages, hence reduction in or elimination of the profits on our contracts.

Also, our revenue is recognised on the percentage of completion method, and billing is based on our monthly progress claims. A delay and/or extension of project will therefore affect our billings, revenue, operational cash flows and financial performance. We may also experience significant drop in revenue and profit or even a loss in a given period if our projects are subject to significant delay in the commencement and/or completion, or our project execution timeframe is significantly extended. We could be required to pay our suppliers and subcontractors notwithstanding the delay in the project if the purchase orders have been fulfilled and therefore affecting our operational cash flows. Project delays may also result in conflict of schedules with other project execution and direct labour allocation, where we may have to engage additional subcontractors to supplement such shortage of direct labour which may adversely affect our profit margin.

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Some of our contracts contain specific completion schedule requirements and liquidated damages provisions (i.e. we may be liable to pay the customer liquidated damages if we do not meet the schedules). Failure to meet the schedule requirements in our contracts may result in us exposed to claims of significant liquidated damages, in such case our reputation, financial conditions and results of operations could be adversely affected.

We rely on our major customers

For FY2015, FY2016 and FY2017, our five (or, in the case of FY2015, three) largest customers accounted for approximately 100.0%, 100.0% and 100.0% of our revenue, respectively, and our largest customer accounted for approximately 45.6%, 40.8% and 40.4% of our revenue, respectively.

There is no assurance that our major customers will maintain the current business relationship with us and engage us in the future. Any deterioration in the business relationship or termination of the existing business relationship with our major customers may adversely affect our financial position if we fail to secure other customers or diversify our customer base.

Our revenue and profit margin are subject to fluctuations driven by various factors including but not limited to variation orders, and our past revenue and profit margin may not be indicative of our future financial performance

For FY2015, FY2016 and FY2017, our revenue amounted to approximately HK\$128.0 million, HK\$110.5 million and HK\$125.8 million, respectively, while our gross profit amounted to approximately HK\$36.9 million, HK\$38.2 million and HK\$51.7 million (representing gross profit margin of approximately 28.8%, 34.6% and 41.1%, respectively) and our net profit amounted to approximately HK\$20.7 million, HK\$17.7 million and HK\$23.4 million, respectively (representing net profit margin of approximately 16.2%, 16.0% and 18.6%, respectively).

Given the nature of our business, our revenue and profit margin are inherently subject to fluctuations driven by the number, size and types of projects we worked on during a given year, the nature of services involved and their respective stage of completion (which affect the timing of recognition of our revenue). Since we secure our projects mostly through competitive tendering, the tender strategy we adopt for different projects (including our targeted profit margin) and the amount of work performed for these projects for a given year would affect our overall profit margin from year to year. Our revenue and profit margin is also affected by the amount of variation orders certified by our customers and the timing of their certification from year to year, which vary depending on, among other factors, the practice and procedures of our customers, the complexity and scale of the variation orders and the number of variation orders involved. More particularly, we generally perform additional and/or modification works (i.e. variation orders) as needed from our customers according to the requested timeframe with time and cost implication, but the amount of compensation (i.e. fees and charges) that we may receive from our work done under these variation orders, if any, needs to be negotiated with, determined and agreed by our customers, as evidenced by the issuance of payment certificates, and are generally ascertained at a later stage, more commonly close to or after practical completion of the project. There is no assurance on the amount of fees and charges, if at all, we would ultimately succeed in agreeing with our customers, or that the amount as finally agreed with our customers would be sufficient to recover our costs incurred or provide us with a reasonable profit margin. There is also no assurance as to the timing of verification by our customers on our work done on variation orders, reaching an agreement with us on any additional fees and charges, and issuing relevant payment

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certificates to evidence our fee entitlements for these variation orders. For FY2015, FY2016 and FY2017, our revenue derived from original contract sum amounted to approximately HK\$123.7 million, HK\$108.0 million and HK\$110.1 million, representing approximately 96.6%, 97.7% and 87.5% of our total revenue, respectively, while revenue derived from variation orders amounted to approximately HK\$4.3 million, HK\$2.4 million and HK\$15.7 million and represented approximately 3.4%, 2.3% and 12.5% of our total revenue, respectively. For further details of variation orders, please refer to the paragraph headed “Business — Operational workflow — Variation orders” in this prospectus. There is no assurance that the amount of revenue derived from our projects on hand will not be substantially different from the original contract sum as specified in the relevant contracts. Our financial condition may be adversely affected by any decrease in our revenue and gross profit margin as a result of variation orders.

We may also encounter unforeseen business and operational needs or other unanticipated developments which may be beyond our control that may result in increase in our expenses and may adversely affect our profit margin and financial position. As a public company we will also incur additional legal, compliance, accounting, and other expenses that we did not incur as a private company which may increase our operating costs.

Regardless, the trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. Profit margins of our projects may fluctuate from project to project due to factors such as the amount of labour and subcontracting services required, the complexity of technical requirements of our works, the geological conditions of the project sites, our bidding strategy and the competitive bidding environment from time to time.

Our ability to achieve or maintain profitability is also affected by market developments and competition. There is no assurance that the number of HVAC E&M engineering projects in Hong Kong will not decrease in the future. For instance, an economic downturn in Hong Kong where our Group operates may hold up construction plans. Further, there is no assurance that increasing industry competition will not occur in the property development market which may drive down profit margin of downstream supply-side stakeholders such as suppliers and service providers to property developers, or that competition and downward pricing pressure in the HVAC engineering and services market will not intensify. Therefore, there is no assurance that our revenue and profit margin in the future will remain at a level comparable to those recorded during the Track Record Period. Our financial condition may be adversely affected by any significant decrease in our revenue and/or profit margins.

Our strategy to undertake more projects as first-tier HVAC E&M subcontractor and diversify our customer base could lead to lower gross and net profit margin going forward

Our projects involving both installation services and HVAC system procurement generally provide a lower gross profit margin than those involving installation services only, as we generally provide for a lesser profit margin on HVAC systems procurement. It is an increasingly common requirement for HVAC E&M engineering subcontractors to supply HVAC systems as part of contract performance, and projects involving both installation services and HVAC system procurement are also more typically awarded to first-tier HVAC E&M engineering subcontractors. As part of our strategy to elevate our market position to become a prime, first-tier HVAC E&M engineering subcontractor, we plan on

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undertaking more projects directly from property developers (or their main contractors) as first-tier HVAC E&M engineering subcontractor. This business strategy, if successfully implemented, is expected to result in us undertaking more projects with HVAC system procurement requirement and, given our pricing practice, could in turn negatively impact our overall gross profit margin (and possibly net profit margin) going forward. Moreover, as part of our strategy to reduce our customer concentration, we have been adjusting our project tendering strategy to increasingly weigh in customer base diversification in addition to profit margin consideration. Such adjustment to our project selection and tendering strategy could also have a negative impact on our overall profit margin going forward. If we cannot secure and execute projects with sufficient contract sum and revenue contribution to compensate for a reduced gross and net profit margin, our business, financial conditions and results of operation could be adversely affected.

We may not be able to bill and receive the full amount of gross amount due from customers for contract work. If progress payment or retention money is not paid to us in full as a result of disputes over our work done, our liquidity position may be adversely affected

We normally receive progress payments from our customers. Progress payment is generally made monthly by reference to our progress of works performed during the month as certified by the relevant customers and/or surveyors engaged by the customers. A portion of contract value (generally up to 5% of the total contract sum) is usually withheld by our customers as retention money. Please refer to the paragraph “Business — Customers — Major terms of engagement with our customers” in this prospectus for further details.

Contract assets arise when progress billings has not yet taken place as at a financial year end date in respect of the construction works performed by our Group during that financial year. Our Group recorded contract assets of approximately HK\$14.9 million, HK\$15.7 million and HK\$29.2 million as at 31 December 2015, 2016 and 2017, respectively. As at 31 December 2015, 2016 and 2017, retention receivables of approximately HK\$5.9 million, HK\$7.4 million and HK\$12.1 million, respectively, were retained by our customers.

There is no assurance that we will be able to bill and receive the full amount of gross amount due from our customers for contract work as we may not be able to reach an agreement with our customers on the value of work done. Additionally, there is no assurance that our progress payments will always be certified and paid to us in full, or the retention monies will be paid by our customers to us in full at the end of the relevant defects liability period. Failure to bill and receive the full amount of gross amount due from our customers for contract work done and/or progress payments or failure by our customers to make remittance at all as a result of disputes over our works performed may have an adverse effect on our results of operation, financial position and liquidity position.

For FY2017, we recorded negative cash flow from our operating activities of approximately HK\$28.1 million mainly contributed by the combined effect of: (i) increase in trade and other receivables of approximately HK\$28.3 million; (ii) increase in net amount of contract assets of approximately HK\$18.9 million; and (iii) the payment of Hong Kong profits tax of approximately HK\$11.9 million. For details, please refer to the paragraph headed “Financial Information — Liquidity and capital resources — Cash flow — Cash flow from operating activities” in this prospectus. We cannot assure that we will not experience another period of negative cash flow from our operating activities in the future.

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Unsatisfactory quality and supply of our suppliers

We work closely with our major suppliers for our business operations, being the suppliers of HVAC systems and other relevant consumables and our subcontractors in Hong Kong. We are dependent on the quality and continued supply of these materials, consumables and subcontracting services by our suppliers to maintain the provision of our HVAC E&M engineering services. For FY2015, FY2016 and FY2017, the total purchases from these suppliers were approximately HK\$72.0 million, HK\$52.3 million and HK\$57.1 million, respectively, representing approximately 79.0%, 72.3% and 77.1% of our total cost of services, respectively.

We had not entered into any long-term agreements with any of our suppliers of materials and consumables (including HVAC systems manufacturers or distributors) or any of our subcontractors during the Track Record Period. Therefore, we cannot guarantee that we can continue to receive stable and quality supply of materials, consumables and subcontracting services from our existing suppliers. If our major suppliers cease to operate, we may have to source from alternative suppliers. There is no assurance that we can source from alternative suppliers with similar costs and quality and it may affect our profitability and financial performance.

Unsatisfactory performance by our subcontractors or unavailability of subcontractors may adversely affect our operations and profitability

We may subcontract part of our works to other subcontractors engaged by us. For FY2015, FY2016 and FY2017, subcontracting fees incurred by us amounted to approximately HK\$39.5 million, HK\$31.6 million and HK\$29.3 million, respectively. There is no assurance that we would be able to monitor the performance of these subcontractors as directly and efficiently as with our own staff. In addition, our inability to hire qualified subcontractors could hinder our ability to complete a project within the prescribed deadline.

Outsourcing exposes us to risks associated with non-performance, delayed performance or substandard performance by subcontractors or third parties. Accordingly, we may experience deterioration in quality or delay in completion of our projects. We may also incur additional costs due to delays or a higher price in sourcing the subcontracting services if our subcontractors are in default. We are usually liable for our subcontractors' default. We may face claims arising from latent defects caused by our subcontractors which we did not discover in the past. These events may have negative impact on our profitability, financial performance and reputation, as well as result in litigation or damages claims.

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

If our subcontractors violate any laws, rules or regulations in relation to health and safety matters, we may sometimes be subject to prosecutions as primary defendant by relevant authorities. For instance, under the Immigration Ordinance (Chapter 115 of the Laws of Hong Kong), if a subcontractor employs an illegal immigrant on a construction site, the construction site controller (including but not limited to the principal or main contractor and the subcontractor) may be found to have committed an offence and liable to a fine. In addition, we may be liable to claims for losses and damages, if such violations cause

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any personal injuries/death or damage to properties. Moreover, pursuant to the Employment Ordinance, a principal contractor or a main contractor and every tier of subcontractors shall be jointly and severally liable to pay any wages that become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance. Our operations and hence our financial position may thereby be adversely affected if any of our subcontractors violate their obligations to pay their employees.

In addition, we may not be able to engage suitable subcontractors for our new projects in the future. As at the Latest Practicable Date, we had not entered into any long term service agreement with our subcontractors. Our existing subcontractors have no obligation to accept our proposed engagement in the future. If we fail to engage suitable subcontractors to meet our project needs and requirements, our operations and financial position will be adversely affected.

We may be liable to compensate our customers for losses and expenses incurred as a result of our failure to complete works on time

Our customers normally require us to complete our works within a specified period of time or in accordance with their project schedule. If we fail to do so, we may be liable to compensate our customers at a specified rate on a daily basis unless an extension of time is agreed with our customers.

There is no assurance that such project delay will not happen in the future. Any failure in the completion of a project within the requisite timeframe, whether or not caused by us, could result in us being held liable to pay significant amount of compensation, or in the least harm our reputation in the industry and hinder our ability to win future business. Consequently, our reputation, business and financial performance could be adversely affected.

Our uninsured business operations and the continuing rise of insurance premium

There are certain types of losses for which insurance coverage is not generally available (such as risks in relation to our ability to secure new projects, potential claims arising from latent defects liability, estimation and management of costs, subcontractors' performance, liquidity risk, collectability of our trade and retention receivables and liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks, etc.) on commercial terms acceptable to us, or at all. If we suffer any losses, damages or liabilities in the course of our business operations arising from events for which we do not have any or adequate insurance cover, we have to bear such losses, damages or liabilities by ourselves. In that case, our business operations, financial condition and results of operations may be adversely affected.

We also cannot guarantee that our insurance premiums will not rise or we will not be required by law or our customers to obtain additional insurance coverage. Any significant increase in insurance costs (such as an increase in insurance premiums) or reduction in coverage in the future may materially and adversely affect our business operations and financial results.

We depend on key management and technical personnel

Our success and growth depends on our ability to identify, hire, train and retain suitable, skilled and qualified employees, including management and technical personnel with the requisite experience and/or industry expertise. Our Directors and members of senior management, in particular, our executive

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Directors are important to us. Details of their expertise and experience are set out in the section headed “Directors and Senior Management” in this prospectus. If any of our executive Directors or key technical personnel staff ceases to work for us in the future and our Group is unable to find a suitable replacement in a timely manner, there could be an adverse impact on our business, results of operation and profitability of our Group.

Increases in costs of material and consumables and substandard materials may have an adverse impact on our financial results

Principal materials for our HVAC E&M engineering works include HVAC systems and other consumables such as pipes and fittings. For FY2015, FY2016 and FY2017, the costs of materials and consumables for our HVAC E&M engineering works amounted to approximately HK\$32.5 million, HK\$20.7 million and HK\$27.8 million, respectively, representing approximately 35.7%, 28.6% and 37.6% of our cost of services, respectively.

There is no guarantee that the quality of materials and consumables for the HVAC E&M engineering works supplied to our Group meets our required standards for reasons which are beyond our control, and we may be forced to replace these materials and consumables from other suppliers at additional costs or be subject to time delay. Furthermore, while we are generally able to lock-in the costs of HVAC systems in the early stage of our projects, we cannot assure that the costs of other general 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.

Working capital requirements associated with project works and failure by customers to make timely or full payments may lead to liquidity risk

Due to the nature of our business, progress payments from our customers are paid to us periodically after our progress works are certified by our customers and generally only commence after commencement of our project execution work. There is no assurance that our customers will certify our progress works done and pay us the corresponding progress payments in a timely manner or on the full amount invoiced by us or at all. During the Track Record Period, we tended to gear towards tenders that did not require procurement of HVAC systems or posting of surety bonds to better conserve and manage our limited working capital. Going forward, it is one of our business strategies to expand our market share and secure more HVAC E&M engineering projects. More particularly, given our strategy to become a prime, first-tier HVAC E&M engineering subcontractor for property developers in Hong Kong, we may increasingly undertake projects involving HVAC systems procurement which are more demanding in terms of working capital requirements. Moreover, some of our customers may require us to take out surety bonds issued by banks or insurance companies in the amount of certain percentage of the contract sum in favour of our customers, which may result in the lock-up of a portion of our capital for potentially a prolonged period of time and thereby affecting our liquidity position. For further information, please refer to the paragraph headed “Business — Customers — Major terms of engagement with our customers” in this prospectus. Our working capital and liquidity management will become more critical as we undertake projects of larger contract sum, projects involving HVAC systems procurement and/or projects with surety bond requirement. If we fail to properly manage our liquidity

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position in view of such increasing working capital requirements, our cash flows and financial position could be materially and adversely affected.

We are subject to credit risk in respect of our trade and other receivables and we may experience delays or defaults in collecting our receivables

We normally make monthly payment applications to our customers in respect of the value of the works we have performed in the preceding month, and subject to our customer's confirmations (i.e., payment certificates), thereafter we will proceed with issuing relevant invoices with a credit period. In general, we offer a credit period of 30 to 45 days to our customers on progress payments. Although our receivables turnover days were 32 days, 22 days and 44 days for FY2015, FY2016 and FY2017 respectively, there can be no assurance that our customers will settle our invoices on time and in full. In addition, when undertaking project works, our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention money. Such percentage is generally up to 5% of the total contract sum of the project. In general, it is a term of our contract that 50% of the retention money withheld will be released to us upon practical completion of a project and the remaining 50% of the retention money will be released upon expiry of the defects liability period of a project. However, there can be no assurance that such retention money will be released by our customers to us on a timely basis and in full accordingly. If our customer delays or default in payment, or fails to release our retention receivables as scheduled, our cash flow and working capital may be materially and adversely affected. Any significant impairment in our trade receivables as a result of significant uncertainty in recoverability or customers' defaults or otherwise could adversely affect our cash flow and liquidity, our financial conditions and results of operation.

As at 31 December 2015, 31 December 2016 and 31 December 2017, we recorded trade receivables of approximately HK\$10.6 million, HK\$2.8 million and HK\$27.4 million respectively, and retention receivables of approximately HK\$5.9 million, HK\$7.4 million and HK\$12.1 million respectively.

We had concentration of credit risk in a few customers. As at 31 December 2015, 2016 and 2017, approximately 87.0%, 87.2% and 33.6% of our Group's total trade receivables were attributable to our Group's largest customer respectively and all of our Group's trade receivables were due from our Group's five largest customers. Any difficulty in collecting a substantial portion of our trade and other receivables could materially and adversely affect our cash flows and financial position.

We are exposed to claims arising from latent defects liability

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

If any defect is claimed under the defects liability period, the amount claimed by our customers or rectification costs on the defects incurred by us will be charged to profit or loss and deducted against the retention money withheld by our customers (i.e. retention receivables) when those costs are incurred. If the defect is found and claimed by our customers after the defects liability period, we will assess the

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possible obligation arising from the claim. Such obligation will be recognised as liability in the statement of financial position if the obligation is considered highly probable and the obliged amount can be reliably measured. Otherwise, such claim will be disclosed as contingent liability.

We are subject to environmental liability

Our business is subject to the environmental regulations and guidelines issued by the Government. Such regulations and guidelines may be amended by the Government from time to time to reflect the latest environmental needs. Any changes to such regulations and guidelines could impose additional cost and burden to us.

In the event that our Group fails to comply with these environmental laws and regulations, it may cause delays in the progress of our projects and lead to a negative impact on our public image and reputation, either of which could adversely affect our Group's business operations and financial performance. In addition, any violation of the relevant laws and regulations may lead to substantial fines, clean-up costs and environmental liabilities or even suspension of operations that could materially and adversely affect the operating results and prospects of our Group.

For further information and more detailed discussion of these laws, regulations and standard, please refer to the section headed "Regulatory Overview" in this prospectus.

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

We cannot assure that our implementation of all safety measures and procedures can prevent occurrence of accidents. For each of FY2015, FY2016 and FY2017, we had two, one and nil reported accidents involving our employees. Moreover, we cannot guarantee that our employees or subcontractors will not violate the applicable laws, rules, regulations or our internal work and safety policy. If any of such employees or subcontractors fails to comply with our safety measures at the construction sites, personal injuries, property damage or fatal accidents may occur in greater numbers and/or to a serious extent. We may also be exposed to claims and litigations if accidents occur on our work sites. Please refer to the paragraph headed "Business — Occupational health and safety — System of recording and handling accidents and our safety compliance record" in this prospectus for further information on the work place accidents we encountered during the Track Record Period. These may adversely affect the financial position of our Group to the extent not fully recoverable from our insurance policies. They may also cause our relevant licence(s) and/or certification(s) to be suspended or not renewed.

It is not uncommon in our industry to have project related disputes and litigation. Our performance may be adversely affected by such disputes and litigation

It is not uncommon in our industry to have project related disputes and litigation. We may be in disputes with our customers, subcontractors, materials suppliers, workers and other parties in connection with our projects for various reasons. Such disputes may be in connection with late completion of works, delivery of substandard works, personal injuries or labour compensation in relation to the works. Please refer to the paragraph headed "Business — Litigation and potential claims" in this prospectus for further information on litigation and potential claims we encountered during the Track Record Period.

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

In addition, the outcomes of legal proceedings or disputes are influenced by, among others, negotiation skills, knowledge and judgment of our management. Our Group, to a large extent, relies on the relevant expertise and qualification of our management (including our executive Directors) in dealing with contractual disputes, litigation and arbitration. Should any claims against us fall outside the scope and/or limit of our insurance coverage, our financial position may be adversely affected.

Our Group has records of certain non-compliance of Hong Kong regulatory requirements

There have been instances of non-compliance with certain Hong Kong regulatory requirements by our Group. These include, among others, non-compliance with the Employees' Compensation Ordinance and the Mandatory Provident Fund Schemes Ordinance, details of which are set out in the paragraph headed "Business — Internal control and risk management — Historical non-compliances" in this prospectus. If the relevant Government authorities take enforcement actions against the relevant subsidiaries of our Group and/or our Controlling Shareholders fail to indemnify us to a sufficient extent or at all, we may be required to pay penalty or incur other liabilities, and our reputation, financial condition and results of operations may be adversely affected.

Our business plans and strategies may not be successful or achieved within the expected timeframe or within the estimated budget

We intend to further expand our market share by acquiring more HVAC E&M engineering projects and expanding into servicing the commercial components of composite residential and commercial property development projects, and enhancing our manpower in order to cope with the expected increase in our project undertakings and services offerings. However, our plans and strategies may be hindered by risks including but not limited to those mentioned in this section. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. Any failure in maintaining our current market position or implementing our plans within the expected timeframe or the estimated budget could materially and adversely affect our business, financial condition and results of operations.

Our Group's operations may be affected by inclement weather conditions and are subject to risks of force majeure events

As our HVAC E&M engineering services generally involve outdoor installation work, our work progress may be obstructed or delayed due to adverse weather conditions. If inclement weather conditions persist or a natural disaster occurs, we may be prevented from performing on-site works, and thereby fail to meet specified time schedule. If we have to halt operations during inclement weather conditions or a natural disaster, we may continue to incur operating expenses even while we experience reduced revenues and profitability. Besides, our business is subject to outbreak of severe communicable diseases (such as swine flu, avian flu, severe respiratory syndrome, Ebola virus disease and Zika virus disease), natural disasters or other acts of God which are beyond our control. These incidents may also adversely affect the economy, infrastructure, livelihood and society in Hong Kong. Acts of wars and terrorism may also injure our employees, cause loss of lives, disrupt our operations and destroy our

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works performed. If any such incident occurs, our revenue, costs, financial conditions and business operations will be adversely affected. It is also difficult to predict the potential effect of these incidents and their materiality to our business as well as those of our customers, suppliers and subcontractors.

Dividends declared in the past may not be indicative of our future dividend

During FY2015, FY2016 and FY2017, members of our Group declared dividends in aggregation of approximately HK\$9.5 million, HK\$25.6 million and nil, respectively, to the then shareholders. We declared a dividend on 30 April 2018 to our then sole Shareholder in an amount of approximately HK\$18.0 million, of which approximately HK\$15.1 million was set off against amounts due from Directors as at 31 December 2017 and approximately HK\$2.9 million will be settled by cash by internal resources before Listing. Any dividend declared by us will have to be approved by our Board and the amount of any dividend will depend on various factors, including, without limitation, our operations and earnings, capital requirements and surplus, cashflow position, general financial condition and other factors which our Board may deem relevant. Accordingly, our historical dividends are not indicative of our future dividend distribution policy. Potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined. Please refer to the paragraph headed “Financial Information — Dividend and distributable reserves” in this prospectus for further details of our dividend policy.

Any expiry, withdrawal, revocation, downgrading and/or failure of renewal of our required registrations, licences and certifications would adversely affect our business operations in Hong Kong

We are required to maintain operating qualifications and registrations to operate our HVAC E&M engineering services business in Hong Kong. Please refer to the paragraph headed “Business — Licences and permits” in this prospectus for additional information. To maintain such qualifications and registrations, we must comply with the restrictions and conditions imposed by the relevant authorities. Please refer to the section headed “Regulatory Overview” in this prospectus for further details.

The standards of restrictions and conditions imposed by the relevant authorities on qualifications and registrations may vary from time to time without substantial advance notice and we cannot assure that we will be able to duly comply with such changes in a timely manner. Furthermore, these registrations, licences and certifications are valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. There is no guarantee that the relevant authorities will renew our registrations, licenses and certifications as and when they fall due for renewal, or take out disciplinary actions against us for any non-compliance in the future. Losing any of these registrations, licences and certifications may result in suspension of our operations, which would have a direct material impact on our business operations and financial conditions.

We rely on the service of our Authorised Signatory(ies) and Technical Director(s) for the Group’s registrations maintained with the Buildings Department

We are a minor works contractor registered with the Buildings Department. In order to maintain such registrations, our Operating Subsidiaries must have at least one authorised signatory and technical director to act for it for the purpose of the Buildings Ordinance to carry out certain duties. Further

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details of the authorised signatories of Man Tung AC E&M and Shun Tung, for the purposes of the Buildings Ordinance, are set out in the paragraph headed “Business — Licences and permits” in this prospectus.

The Building Authority imposes certain requirements on the qualifications and experience of such authorised signatory and technical director. For details of our Group’s major registrations and qualification for our services, please refer to the paragraph headed “Business — Licences and permits” in this prospectus.

Departure or disqualification of the authorised signatory(ies) or technical director(s) may result in suspension of our Group’s registrations maintained with the Buildings Department if no replacement is identified and applied for. In the event that any of the authorised signatories or technical directors leaves our Group, we may not be able to identify and recruit staff with adequate qualifications and experience eligible to become authorised signatory or technical director in a timely manner and at reasonable costs, thereby potentially resulting in suspension of the Group’s registrations maintained with the Buildings Department. Our competitiveness may be impaired and our business operations and financial performance would then be adversely affected.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our performance depends on the trends and developments of the property development market in Hong Kong

The future growth and level of profitability of the HVAC engineering and services industry in Hong Kong depend to a significant extent upon the continued availability of construction projects in general, and more particularly to our Group, property development projects. The availability of construction and property development projects from the public sector or private sector will be determined by the interplay of a variety of factors. These factors include the Government’s spending patterns on construction and infrastructure in Hong Kong and its land supply policy, the approval of the Legislative Council of Hong Kong, and the investment plans and strategies of property developers. If there is any change in Hong Kong’s land supply policy, it will impact land acquisition strategies and property development plans of property developers, which in turn will impact the demand for HVAC E&M engineering works in Hong Kong and consequently our operations and profitability could be adversely affected.

Our performance depends on market conditions and the general economic and political conditions in Hong Kong

Our operations are principally located in Hong Kong. The future growth and level of profitability of the HVAC engineering and services industry in Hong Kong depend on the general conditions and prospects of Hong Kong’s economy. If there is any recurrence of recession in Hong Kong, our operations and profitability could be adversely affected. In addition, any change in the existing political environment in Hong Kong may bring about instability of its economy, which will adversely affect the business environment of Hong Kong and in turn adversely affect our operations, financial conditions and profitability.

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We operate in a relatively competitive environment

The HVAC engineering and services industry in Hong Kong is competitive. As of 31 May 2018, there were 518 subcontractors registered under the Subcontractor Registration Scheme managed by CIC as registered subcontractor for HVAC engineering services in Hong Kong. Some of the major market players may have significantly more resources and are better positioned than our Group, including but not limited to having better financing capabilities, being more developed and/or having more advanced technical expertise. New participants may wish to enter the industry provided that they have the appropriate skills, local industry knowledge and experience, necessary capital and are granted the requisite licences or approvals by the relevant regulatory bodies. Increased competition may result in lower operating margins and loss of market share, which may adversely affect our profitability and operating results.

Rising costs of construction workers and shortage of labour may increase our costs and affect our performance

E&M engineering works are generally labour-intensive in nature. However, according to the Frost & Sullivan Report, the HVAC engineering and services industry in Hong Kong is suffering from labour shortage, which is exacerbated by an ageing workforce and the lack of skilled talent. Although the Government and CIC have made considerable efforts in recent years to train local skilled workers and enhance the industry's professional image and have attracted many new entrants to the industry, the keen demand has yet to be met. The average annual wages of workers in E&M engineering and services industry in Hong Kong increased from HK\$225,300 in 2012 to HK\$287,800 in 2017, representing a CAGR of approximately 5.0%, mainly due to the growing construction activities in Hong Kong and the shortage of experienced and skilled labour, as many skilled construction workers are approaching the age of retirement while young people are reluctant to join the construction services industry. If labour costs in Hong Kong keep increasing, our costs may increase significantly in the future, which could materially and adversely affect our business operations and financial conditions.

Moreover, there is no assurance that the supply of labour will be sufficient during the forthcoming years when the peak load of construction activities is ongoing. All labour intensive projects are more susceptible to labour shortage, and our subcontracting fees including labour costs of our subcontractors may escalate. If there is a significant increase in the costs of labour and we have to retain our labour (likewise our subcontractors retain their labour) by increasing their wages, our staff cost and/or subcontracting cost will increase and thus lower our profitability. On the other hand, if we or our subcontractors fail to retain our existing labour and/or recruit sufficient labour in a timely manner to cope with our existing or future projects, we may not be able to timely complete our projects, resulting in liquidated damages and/or financial losses.

RISKS RELATING TO THE SHARE OFFER

Investors will experience immediate dilution

Because the Offer Price of our Offer 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 net tangible assets value to approximately HK\$0.15 per Share and HK\$0.17 per Share, based on the minimum Offer Price of HK\$0.50 per Offer Share and the maximum Offer Price of HK\$0.60 per Offer Share, respectively.

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

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group's turnover, earnings and cash flow, the number, scale and profile of the projects we undertake, strategic alliances or acquisitions made by our Group or our competitors, market share of our Group and our competitors, industrial or environmental accidents happened to our Group, loss of key personnel, litigations, fluctuations in the market prices for the materials and consumables of our Group, the liquidity of the market for the Shares and the general market sentiment regarding the HVAC engineering and services industry could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price or at all.

Investors may experience dilution if our Group issues additional Shares in the future

Our Group may issue additional Shares upon the exercise of the Over-allotment Option or options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of Shareholders and may result in a dilution in the earnings per Share and net asset value per Share. In addition, our Group may need to raise additional funds in the future to finance business expansion, new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares. Further issue of Shares by our Company may also materially and adversely affect the prevailing market price of the Shares.

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

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

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

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be

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located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on protection of minorities Shareholders is set out in Appendix III to this prospectus.

RISKS RELATING TO THIS PROSPECTUS

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

Certain facts, statistics, and data presented in the section headed “Industry Overview” in this prospectus and elsewhere in this prospectus relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by government officials or independent third parties. In addition, certain information and statistics set forth in the section headed “Industry Overview” in this prospectus and elsewhere in this prospectus have been extracted from a market research report commissioned by us and prepared by Frost & Sullivan, an independent market research agency. Our Company believes that the sources of the information are appropriate sources for such information, and the Sole Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, our Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters nor any parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources are prepared on a comparable basis or that such information and statistics are stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

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

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

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

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 prospective investors that neither we nor our Directors nor the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, the directors, officers, employees, advisers, agents or representatives of any of them, or any other party (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 of

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the 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 or liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to subscribe the Share Offer. You should rely only on the information contained in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE SHARE OFFER

This prospectus is published solely in connection with the Share Offer and the listing of the Shares on the Main Board, which is sponsored by the Sole Sponsor and managed by the Sole Bookrunner.

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

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure 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 in the relevant Application Forms.

APPLICATION FOR LISTING ON THE MAIN BOARD

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under this prospectus to be listed on the Main Board has been refused before the expiration of three weeks from the date of closing of the application lists for the Public Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

A total of 250,000,000 Offer Shares, representing 25% of the enlarged issued share capital of our Company, will be in the hands of the public immediately following completion of the Share Offer and the Capitalisation Issue and upon Listing assuming the Over-allotment Option is not exercised.

ABOUT THE SHARE OFFER

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any of our or their respective directors, advisers, officers, agents, employees, affiliates and/or representatives or any other person or party involved in the Share Offer.

The delivery of this prospectus should not, 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 the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The structure and conditions of the Share Offer is set forth in the section headed “Structure of the Share Offer” in this prospectus.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for application 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.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer and the listing of the Shares on the Main Board, which is sponsored by the Sole Sponsor and is managed by the Sole Bookrunner. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms and conditions of the Public Offer 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 Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company. Further information relating to the Underwriters and the Share Offer and the underwriting arrangements is set out in the section headed “Underwriting” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or about Wednesday, 4 July 2018, or such later date as the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company may agree. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. For information relating to the determination of the Offer Price, please refer to the section headed “Structure of the Share Offer” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

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

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws or any applicable rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the United States.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Prospective investors of the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, advisers, officers, agents, employees, affiliates and/or representatives or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

SHARE REGISTRAR, REGISTRATION AND STAMP DUTY

Our Company's principal share register will be maintained by our principal share registrar, Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and our Company's Hong Kong branch share register will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands.

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

Unless determined otherwise by our Board, dividends payable in Hong Kong dollars in respect of Shares will be paid to Shareholders listed on the Hong Kong branch share register, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or for joint Shareholders, to the registered address of that Shareholder whose name stand first in the register in respect of the joint holding, or to such person and to such address as the Shareholder or joint Shareholders may in writing direct, in accordance with the Articles.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence at 9:00 a.m. on Wednesday, 11 July 2018. The Shares will be traded in board lots of 4,000 Shares each. The stock code for our Shares is 1746. We will not issue temporary documents of title.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

CURRENCY TRANSLATIONS

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

$$\text{US\$1.00} = \text{HK\$7.80}$$

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

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Cheung Yuen Tung (張元通) (Chairman)	DD 106 Lot 1747RP Tung Bin Road, Kam Sheung Road Yuen Kong, Kam Tin Yuen Long, New Territories, Hong Kong	Chinese
Mr. Cheung Yuen Chau (張元秋)	Unit D, 75/F, Tower 1 Sorrento, 1 Austin Road West Tsim Sha Tsui, Kowloon, Hong Kong	Chinese
Mr. Tang Chi Chiu (鄧志釗)	Room 2413, Nga Lam House Tsui Lam Estate Tseung Kwan O, Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Pang Kam Fai, Dickson (彭錦輝)	Flat A, 1/F, Valley View No 15 Lok Yuen Path Fo Tan, Shatin New Territories, Hong Kong	Chinese
Mr. Law Chung Lam, Nelson (羅頌霖)	Flat D, 14/F, Chester Court 6-8 Praya Kennedy Town, Hong Kong	Chinese
Mr. Lau Yu Ching (劉裕正)	Flat B, 17th Floor 52 Broadway Mei Foo Sun Chuen Kowloon, Hong Kong	Chinese

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sole Sponsor

China Galaxy International Securities (Hong Kong) Co., Limited

20th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

(A licensed corporation carrying on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO)

Sole Bookrunner

Quasar Securities Co., Limited

Unit A, 12/F
Harbour Commercial Building
122–124 Connaught Road
Central, Hong Kong

Joint Lead Managers

Quasar Securities Co., Limited

Unit A, 12/F
Harbour Commercial Building
122–124 Connaught Road
Central, Hong Kong

China Galaxy International Securities (Hong Kong) Co., Limited

20th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Wellington Financial Limited

Unit B, 10/F
128 Wellington Street
Central, Hong Kong

Co-manager (Placing)

Taijin Securities and Futures Limited

Unit 1001–1002, 10/F
Wayson Commercial Building
28 Connaught Road West
Sheung Wan, Hong Kong

Co-managers (Public Offer)

Golden Rich Securities Limited

22/F, Siu On Centre
188 Lockhart Road
Wan Chai, Hong Kong

TUS Corporate Finance Limited

15/F, Shanghai Commercial Bank Tower
12 Queen's Road Central
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal adviser to our Company	<i>As to Hong Kong law</i> D. S. Cheung & Co. 29th Floor, Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai Hong Kong
	<i>As to Cayman Islands law</i> Conyers Dill & Pearman Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal adviser to the Sole Sponsor and the Underwriters	<i>As to Hong Kong law</i> Mayer Brown JSM 16th–19th Floors Prince’s Building 10 Chater Road Central Hong Kong
Reporting accountants	KPMG 8th Floor, Prince’s Building 10 Chater Road, Central Hong Kong
Industry consultant	Frost & Sullivan International Limited 1706, One Exchange Square 8 Connaught Place Central, Hong Kong
Receiving Bank	Bank of China (Hong Kong) Limited
Tax adviser	RSM Tax Advisory (Hong Kong) Limited 29th Floor, Lee Garden Two 28 Yun Ping Road Causeway Bay Hong Kong
Compliance Adviser	Messis Capital Limited Room 1606, 16th Floor Tower 2, Admiralty Centre 18 Harcourt Road Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters, head office and principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Room 1908, 19th Floor Cheung Fung Industrial Building Nos. 23–39 Pak Tin Par Street Tsuen Wan, New Territories Hong Kong
Company's website	www.manshungle.com.hk <i>(Information contained in this website does not form part of this prospectus)</i>
Authorised representatives	Mr. Cheung Yuen Tung (張元通) DD 106 Lot 1747RP Tung Bin Road, Kam Sheung Road Yuen Long, Kam Tin Yuen Long, New Territories, Hong Kong Mr. Tang Chi Chiu (鄧志釗) Room 2413, Nga Lam House Tsui Lam Estate Tseung Kwan O, Hong Kong
Company secretary	Mr. Tang Chi Chiu (鄧志釗) (CPA) Room 2413, Nga Lam House Tsui Lam Estate Tseung Kwan O, Hong Kong
Audit committee	Mr. Lau Yu Ching (劉裕正) (Chairman) Mr. Pang Kam Fai, Dickson (彭錦輝) Mr. Law Chung Lam, Nelson (羅頌霖)
Remuneration committee	Mr. Pang Kam Fai, Dickson (彭錦輝) (Chairman) Mr. Lau Yu Ching (劉裕正) Mr. Law Chung Lam, Nelson (羅頌霖)
Nomination committee	Mr. Law Chung Lam, Nelson (羅頌霖) (Chairman) Mr. Lau Yu Ching (劉裕正) Mr. Pang Kam Fai, Dickson (彭錦輝)

CORPORATE INFORMATION

Principal share registrar and transfer office in the Cayman Islands Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and transfer office Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal banker Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Nanyang Commercial Bank, Limited
151 Des Voeux Road Central
Hong Kong

INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, or any of our or their respective directors, advisers, officers, agents, employees, affiliates and/or representatives or any other person of party involved in the Share Offer (except Frost & Sullivan) nor is any representation given as to its accuracy or completeness. Accordingly, you should not place undue reliance on such information or statistics.

REPORT COMMISSIONED FROM FROST & SULLIVAN

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990s. Frost & Sullivan has four offices in China and direct access to the knowledgeable experts and market participants in the HVAC engineering and services industry and its industry consultants, on average, have more than three years of experience. Frost & Sullivan charged us a total fee of HK\$450,000 for the research and preparation of the Frost & Sullivan Report.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of the Hong Kong HVAC engineering and services industry for the prospective investors. The Frost & Sullivan Report includes information on the Hong Kong HVAC engineering and services industry as well as other economic data, which have been quoted in the prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the Hong Kong HVAC engineering and services industry. Primary research includes interviewing industry insiders, competitors, downstream customers and recognised third party industry associations. Secondary research involved reviewing company reports, independent research reports, data based on relevant official authorities' research database and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. We believe that the sources of this information are appropriate sources for the information and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this 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.

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

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period. In addition, Frost & Sullivan has developed its forecast on the following bases and assumptions: (i) Hong Kong's social, economic and political environment is likely to remain stable in the forecast period; (ii) government policies on housing and construction industry in Hong Kong is likely to remain unchanged during the forecast period; and (iii) the HVAC engineering and services market in Hong Kong will likely to grow continuously driven by high population density, increasing awareness on public health and sustainability and increasing housing supply.

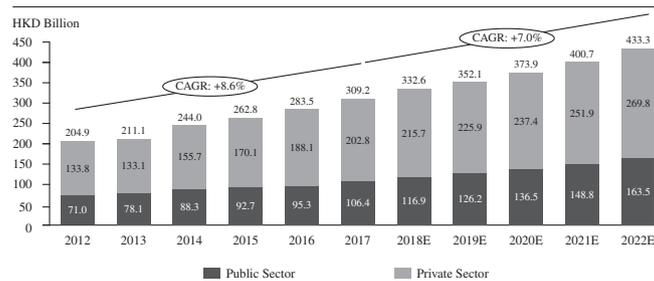
INDUSTRY OVERVIEW

OVERVIEW OF HONG KONG HOUSING DEVELOPMENT MARKET

Overview of the Hong Kong Building and Construction Industry

The building and construction industry in Hong Kong is generally classified into two sectors — private sector and public sector. Hong Kong's expenditure on building and construction increased from HK\$204.9 billion in 2012 to HK\$309.2 billion in 2017, representing a CAGR of 8.6%. The proportion of expenditure on building and construction in total fixed capital formation has been increasing from 2012 to 2017. The expenditures in private sector and public sector were HK\$133.8 billion and HK\$71.0 billion respectively in 2012, and reached HK\$202.8 billion and HK\$106.4 billion in 2017, representing CAGR of 8.7% and 8.4%, respectively. The continuous demand for housing development and rolling out of major infrastructure projects will support an increase in the expenditure on building and construction, whereby the expenditures on both private and public sector are expected to grow stably. The continuous development of building and construction will also boost the growth of HVAC engineering market.

Expenditure on Building and Construction, Hong Kong, 2012–2022E



Source: Census and Statistics Department of HKSAR, Frost & Sullivan

Supply chain of building and construction industry typically involves four major groups of participants:

Customers

Land owners, property developers and Government departments are typically the customers to the main contractors in the construction industry. In other words, construction projects are often initiated by these parties. For the private sector, for instance, land owners and property developers obtain land sites through public auctions and develop residential buildings, commercial buildings or industrial buildings afterwards, by commissioning projects to main contractors.

Main Contractors

After obtaining projects from customers, the main contractors will start to perform construction works depending on the nature of the project.

Subcontractors

Given the scope of the project or the skillset required, the main contractors may consider outsourcing part of the construction works to some subcontractors depending on their expertise and experiences in the field.

Suppliers

Suppliers are usually manufacturers, trading service provider and/or rental service providers.

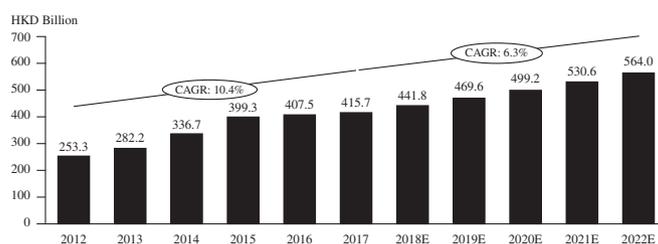
Housing Development Market in Hong Kong

The housing development market in Hong Kong has been enjoying a steady growth in recent years. From 2012 to 2017, the gross value of construction work in Hong Kong increased from HK\$253.3 billion in 2012 to HK\$415.7 billion in 2017, representing a CAGR of 10.4%.

In the forecast period from 2018 to 2022, the continuous effort put in by the Government in increasing the supply of land and housing is expected to be a key factor going forward in driving up the overall growth in Hong Kong's housing development market. The gross value of the construction works in Hong Kong is expected to reach HK\$564.0 billion by 2022, with a CAGR of 6.3% from 2017 to 2022. A more moderate growth rate is forecasted in the forecast period mainly based on the budget for infrastructure construction and the relatively stable forecasted property price from 2017 to 2022.

INDUSTRY OVERVIEW

Gross Value of Construction Work, Hong Kong, 2012–2022E

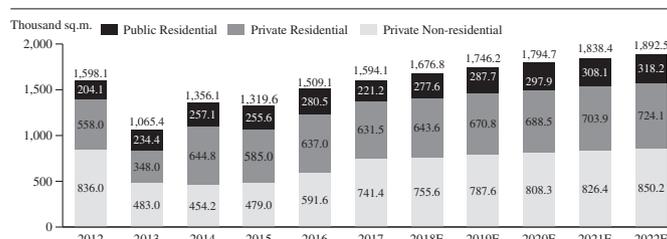


Note: Including both private and public sector and construction works performed by both main contractors and sub-contractors.

Source: Census and Statistics Department of HKSAR, Frost & Sullivan

In general, the completed residential gross floor area for both private and public sectors has gradually recovered from the slump in 2013. The significant decrease in floor area of completed private property development projects in 2013 was mainly caused by the Hong Kong Government's demand-side management measures and macro-prudential measures introduced in early 2013. The delays in construction and insufficient land supply caused decrease in floor area of newly completed public residential units in 2017. It is expected that the completed gross floor area of projects in the private sector will continue to grow at a CAGR of 2.8% from 2017 to 2022 due to strong private housing demands and continuously growing development plans for commercial premises, offices and hotels. On the other hand, to ease the problem of shortage in public housing, Hong Kong government has announced to increase the supply of public housing in the coming five years. Due to strong support from the Government, the supply of public housing will improve and the completion of public residential buildings is expected to grow at a higher CAGR of 7.5% during the period from 2017 to 2022 than the private sector.

Gross Floor Area of Projects Completed (by Private and Public Sector), Hong Kong, 2012–2022E



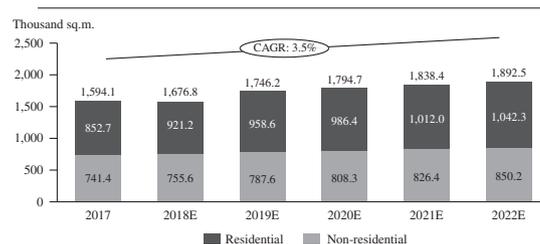
Note: Public non-residential projects are not included.

Source: Census and Statistics Department of HKSAR, Frost & Sullivan

Housing Development Market by Residential and Non-residential Projects

In recent years the Government has introduced relevant policies from time to time to regulate the housing markets of both public sector and private sector. Despite certain fluctuations in the past few years, the overall gross floor area of completed property development projects in the Hong Kong housing market has almost recovered to the highest level of the past six years decreased from 1,598.1 thousand sq.m. in 2012 back to 1,594.1 thousand sq.m. in 2017. The gross floor area of property development projects under construction in Hong Kong housing market increased from 5,337.0 thousand sq.m. in 2012 to 7,032.9 thousand sq.m. in 2017, indicating a CAGR of 5.7%. Residential property projects accounted for about 54.0% of all completed property development projects in 2017 in terms of gross floor area.

Gross Floor Area of Projects Completed, Hong Kong, 2017–2022E



Note: Public non-residential projects are not included.

Source: Census and Statistics Department of HKSAR, Frost & Sullivan

INDUSTRY OVERVIEW

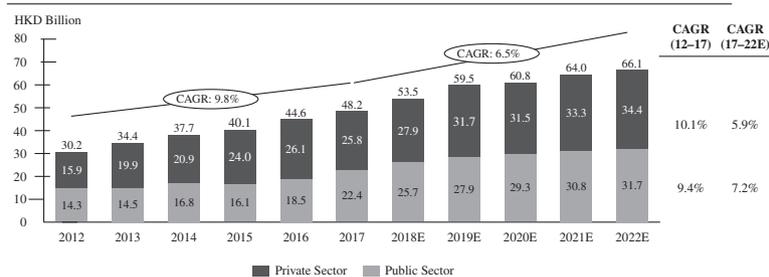
The gross floor area of property development projects completed in Hong Kong is forecasted to grow from 1,594.1 thousand sq.m. in 2017 to 1,892.5 thousand sq.m. in 2022 at a CAGR of 3.5%. Residential sector is forecasted to remain accounting for over half of the gross floor area of projects completed. Given the current government policy direction and continued public pressure, property development projects in Hong Kong are expected to increase continuously and housing market will maintain a moderate growth.

OVERVIEW OF E&M AND HVAC ENGINEERING AND SERVICES MARKET IN HONG KONG

E&M Engineering and Services Market in Hong Kong

Electrical and mechanical (E&M) engineering services refer to the installation and maintenance for gas supply system, HVAC system, low voltage electrical system, fire protection system, plumbing and drainage system in residential and non-residential buildings.

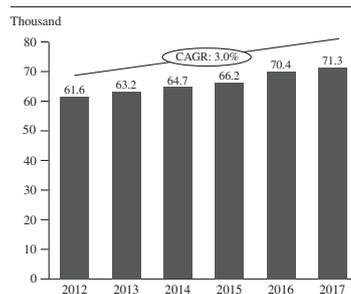
Expenditure Value of E&M Engineering and Services, Hong Kong, 2012–2022E



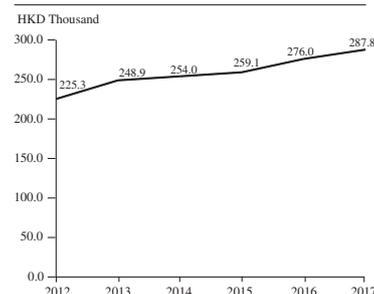
Source: HKCIC, Frost & Sullivan

According to the Frost & Sullivan Report, the expenditure value of E&M engineering and services market in Hong Kong increased from HK\$30.2 billion in 2012 to HK\$48.2 billion in 2017 at a CAGR of 9.8%, and is expected to grow to HK\$66.1 billion in 2022, indicating a CAGR of 6.5% from 2017 to 2022. The rate of growth of the E&M engineering and services market is expected to drop due to the slowdown of rate of growth in the overall construction market in Hong Kong. For private sector, the total expenditure of E&M engineering and services market increased from HK\$15.9 billion in 2012 to HK\$25.8 billion in 2017 at a CAGR of 10.1%, and is expected to increase to HK\$34.4 billion in 2022 with a CAGR of 5.9% from 2017 to 2022. For public sector, the expenditure value of E&M engineering and services market increased from HK\$14.3 billion in 2012 to HK\$22.4 billion in 2017 at a CAGR of 9.4%, and is expected to grow to HK\$31.7 billion in 2022, representing a CAGR of 7.2% from 2017 to 2022. The CAGR for public sector from 2017 to 2022 is expected to be higher than that of the private sector since government is in general less able to exert control over the progress of development of private projects.

Number of Workers Engaging in the E&M Engineering and Services Industry, Hong Kong, 2012–2017



Average Annual Wages Engaging in E&M Engineering and Services Industry, Hong Kong, 2012–2017



Source: Vocational Training Council HKSAR, Frost & Sullivan

The number of workers engaged in E&M engineering and services industry in Hong Kong increased from approximately 61.6 thousand in 2012 to approximately 71.3 thousand in 2017 at a CAGR of 3.0%. Nevertheless, there is still shortage of manpower in E&M engineering and services industry in Hong Kong. The Government has spent about HK\$2.0 billion annually during 2012 and 2017 on the Vocational Training Council to support talents training. It is expected that the number of workers will continue to rise to narrow the gap between manpower supply and demand.

INDUSTRY OVERVIEW

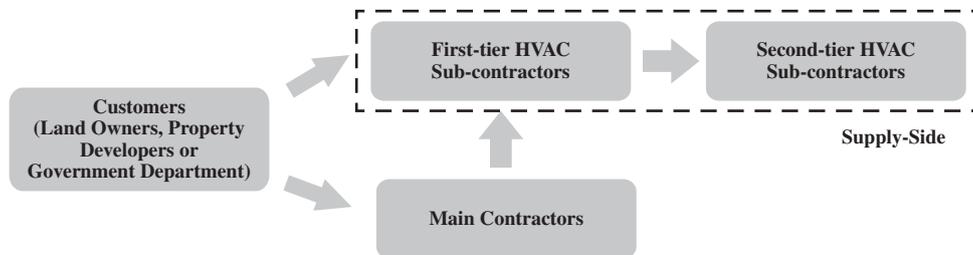
The average annual wages of workers in E&M engineering and services industry in Hong Kong grew from HK\$225.3 thousand in 2012 to HK\$287.8 thousand in 2017, indicating a CAGR of 5.0%, and is anticipated to grow in the coming years due to rising overall earnings and alleviated but continuous shortage of manpower in Hong Kong.

HVAC Engineering and Services Market in Hong Kong

As a subset of E&M engineering and services market, heating, ventilation and air conditioning (HVAC) refers to installation of heating, ventilating and air conditioning system for residential, commercial and industrial buildings and facilities.

HVAC engineering and services market can be divided into different categories by its end uses in public or private and residential or non-residential buildings. The features and requirements of HVAC systems vary in different segments. In Hong Kong private residential sector, air conditioner, which also provides heating functionality, forms the largest part of HVAC systems due to Hong Kong's humid sub-tropical climate. Window-type and split-type are the major types of air conditioners in Hong Kong. For private non-residential sector, commercial buildings, such as shopping malls, office buildings, hotels and boarding houses, factory and warehouses are the major users of HVAC systems. Central air conditioning system is typically more adopted in the commercial sector.

Value Chain for HVAC Construction Industry, Hong Kong^(Note)



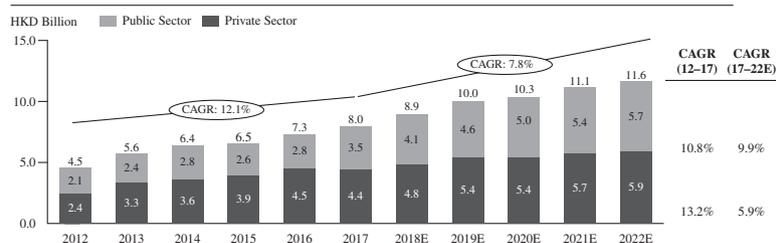
Note: including both private and public sector and construction works performed by both main contractors and sub-contractors

Source: Census and Statistic Department of HKSAR, Frost & Sullivan

Land owners, property developers and Government departments are typically customers to the main contractors or first-tier HVAC sub-contractors. After obtaining projects from customers, main contractors or first-tier HVAC sub-contractors may consider outsourcing part of the construction works to second-tier or lower-tier subcontractors depending on their expertise and experiences in the field. In the construction industry in Hong Kong, due to the high concentration of downstream property development market and the relatively large scale of construction projects, it is not uncommon for construction contractors in the supply-side of the value chain in Hong Kong to exhibit customer concentration. In particular, the property development industry in Hong Kong is mainly dominated by a few prominent developers, so for large-scale E&M engineering contractors undertaking property developers' projects, customer concentration is usually high.

Market size of HVAC Engineering and Services Market

Market Size of HVAC Engineering and Services Market, Hong Kong, 2012–2022E



Source: Frost & Sullivan

The market size of HVAC engineering and services market represents the total revenue generated from heating, ventilation and air conditioning design and installation work performed in Hong Kong. Hong Kong's HVAC installation market soared from HK\$4.5 billion in 2012 to HK\$8.0 billion in 2017 at a CAGR of 12.1%, mainly driven by the increasing volume of building services works in Hong Kong and the rising standards on building efficiency as promoted by the Building Energy Efficiency Ordinance which resulted in increasing adoption of advanced and higher quality HVAC systems with

INDUSTRY OVERVIEW

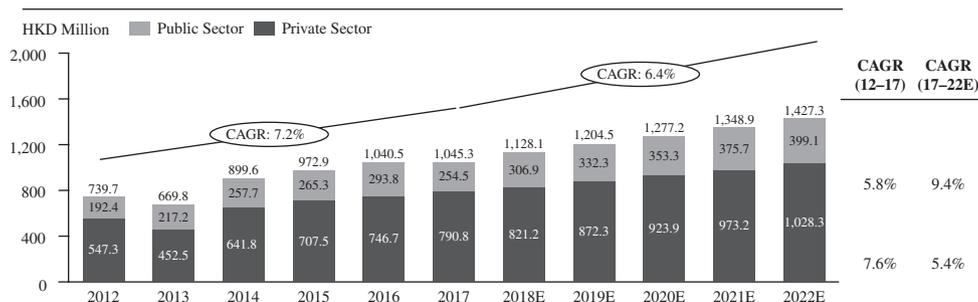
higher price. According to the Frost & Sullivan Report, as of the end of 2017, total residential premises in private sector and public sector in Hong Kong reached over 2.3 million units, with gross floor area equivalent to nearly 70 million sq.m.. With the increasing awareness on health effect and demand for better living environment among residents, there will be a great market potential in replacement of ageing apparatus which would drive the HVAC engineering and services market to a new level.

HVAC engineering and services accounted for 16.5% of total expenditure value of E&M engineering and services market in 2017. The private sector took a share of 56.0% of the total market size of HVAC engineering and services market in 2017.

It is anticipated that the HVAC engineering and services market in Hong Kong will keep the growth momentum in the coming years, with its market expected to reach HK\$11.6 billion in 2022 at a CAGR of 7.8%, driven by the continuously rising population density in Hong Kong and the commencement of major construction projects in Hong Kong.

Market size of Residential HVAC Engineering and Services Market

Market Size of Residential HVAC Engineering and Services, Hong Kong, 2012–2022E

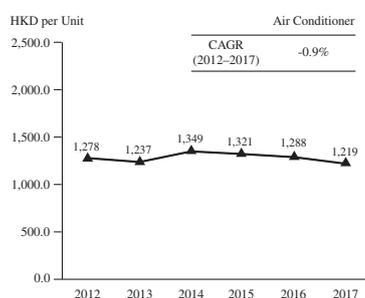


Source: Frost & Sullivan

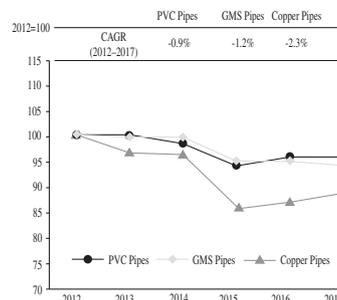
The market size of residential HVAC engineering and services has increased from HK\$739.7 million in 2012 to HK\$1,045.3 million in 2017, indicating a CAGR of 7.2%. Residential HVAC engineering and services market benefited from the increased floor areas of residential buildings both in public and private sector, thanks to the endeavour of the Government to alleviate the issue of housing shortage.

It is expected that the Government will continue to keep a stable land supply for private housing development and provide more public rental housing and subsidised sales flats, driving the continuous growth of residential HVAC engineering and services market. In addition, the number of private residential buildings completed during 2000 and 2009 reached over 190 thousand units, which indicates a large potential for replacement market as the normal lifespan of air conditioners is around 10 years and the demand for better living condition will stimulate replacement of outdated facilities. The market size of the residential HVAC engineering and services market in Hong Kong is expected to reach HK\$1,427.3 million in 2022, with a CAGR of 6.4% from 2017 to 2022 driven by the expected demand growth and price increase.

Unit Price of Average Air Conditioning Machines, Hong Kong, 2012–2017



Index of Unit Price of Ancillary Materials, Hong Kong, 2012–2017



Source: Census and Statistics Department of HKSAR, Frost & Sullivan

INDUSTRY OVERVIEW

The wholesale price index of average air conditioning machines (windows or wall types) in Hong Kong has witnessed a slight decline from 2012 to 2017 at a CAGR of -0.9%. The price of air conditioning machines has remained rather stable given a stable demand for air conditioning machines in the Hong Kong market, which is driven by a relatively stable number of residential units being completed in the last few years. As HVAC engineering services providers usually offer their quote with air conditioning machines included, the price change of air conditioning machines is generally reflected in the total value of contract.

Ancillary materials used in HVAC works include PVC pipes, GMS pipes and copper pipes. The price index of PVC, GMS and copper pipes exhibited a mild decrease per kilogramme unit price at a CAGR of -0.9%, -1.2% and -2.3% respectively for the period of 2012 to 2017. The issue of oversupply of plastic and copper was accountable for the decrease in the unit prices of PVC pipes, GMS pipes and copper pipes.

COMPETITIVE LANDSCAPE OF HVAC ENGINEERING AND SERVICES MARKET IN HONG KONG

The overall HVAC engineering and services market in Hong Kong is fragmented with the top five players accounting for around 17.9% (while our Group ranked 11 and accounted for approximately 1.6%) of the market share in terms of revenue contribution in 2017. There are hundreds of market players including HVAC first-tier and second-tier subcontractors, and small and medium size HVAC suppliers. The first-tier and second-tier HVAC subcontractors usually focus on the installation of HVAC systems in newly completed building projects whereas smaller contractors or subcontractors would primarily focus on HVAC retrofits market. As of 31 May 2018, there were 518 subcontractors registered under the Subcontractor Registration Scheme of CIC for HVAC engineering services in Hong Kong.

The first-tier and second-tier HVAC contractors are usually the larger contractors with property developers, main construction contractors or government authorities. It is a common practice in the HVAC engineering and services industry that a HVAC contractor, having awarded a sizable HVAC project, to contract out various parts of the projects to different smaller subcontractors.

Market Share of Top Players in HVAC Engineering and Services Market in Hong Kong in 2017

Rank	Name of company	Headquarter location	Sales (HK\$ million)	Market Share (%)	Business Coverage
1	Company AA	Hong Kong	361.8	4.5	Engineering service specializing in HVAC and refrigeration solutions
2	Company BB	Hong Kong	309.9	3.9	Design, supply, installation, testing, commissioning and project management for HVAC systems
3	Company CC	Hong Kong	278.8	3.5	Comprehensive range of E&M engineering and environmental engineering services
4	Company DD	Hong Kong	257.5	3.2	District heating & cooling system and large scale HVAC plants
5	Company EE	Hong Kong	226.6	2.8	All-air-system, air-and-water system, all-water system, unitary refrigerant-based system, etc.
11	The Group	Hong Kong	125.8	1.6	Supply, installation and maintenance of HVAC system
	Others		6,396.5	80.5	
	Total		7,956.8	100.0	

INDUSTRY OVERVIEW

The residential HVAC engineering and services market in Hong Kong is considered a concentrated market with the top five players in 2017 constituting approximately 49.4% of the residential HVAC engineering and services market. Although it is estimated that there are over hundreds of market players in the overall residential HVAC engineering and services market, only less than 20 market players in Hong Kong engage in providing HVAC engineering and services for residential property projects. According to the Frost & Sullivan Report, our group ranked first in the residential HVAC engineering and services market in 2017 with 12.0% of the total market share.

Market share of top players in HVAC Engineering and Services Market (Residential) in Hong Kong in 2017

Rank	Name of company	Headquarter location	Revenue in 2017 (HK\$ million)	Market share (%)	Business coverage
1	Our Group	Hong Kong	125.8	12.0	Supply and installation and maintenance of HVAC system
2	Company AA	Hong Kong	121.4	11.6	Engineering service specialising in HVAC and refrigeration solutions
3	Company FF	Hong Kong	107.3	10.3	Design, supply, installation, operation and maintenance of HVAC systems
4	Company GG	Hong Kong	83.2	8.0	Supply, installation and maintenance of HVAC system
5	Company HH	Hong Kong	78.0	7.5	Provision of air conditioners and refrigeration products and services
	Others		<u>529.6</u>	<u>50.6</u>	
	Total		<u><u>1,045.3</u></u>	<u><u>100.0</u></u>	

Factors of Competition

Flexibility

The leading HVAC contractors could engage in various roles in a HVAC project such as first-tier subcontractor, second-tier subcontractor or sometimes materials suppliers. The flexibility of the role the contractor could take is one of the crucial factor for competition in the residential HVAC installation market.

Business relationship

Major HVAC engineering and services providers generally have good business relationship with property developers. Some HVAC contractors have maintained years of relationship with property developers. These service providers have better comparative advantage as they have better market and industry knowledge and understanding on project management, quality requirements and business operations, and the financial and operational capabilities required for servicing major land developers.

Quality of work and business reputation

HVAC engineering and services providers in the industry generally establish reputation as well as develop customer loyalty through high quality of work and word of mouth. Thus, it is difficult for smaller or less reputable contractors to compete with contractors of sound business reputation which tend to have a good quality of work and a well established supply chain. As brand awareness and successful track records are crucial to gain market share in the industry, business reputation is definitely one of the major factors to compete in the market.

Price competition

For residential HVAC projects, price competition is one of the major considerations in project tender with main contractors and property developers. The leading HVAC engineering and services contractors with the more sophisticated or well developed supply chain support could usually offer a more competitive pricing than the smaller players. Thus, the market players with better price advantages over other contractors are more likely to win tenders.

Market Drivers

Growing downstream housing developing market

Driven by the strong demand for housing, increasing expenditure on housing development and increasing land supply, the housing developing market, which is the main downstream market of HVAC engineering services, is expected to continue a robust growth both in the private and public sector. As currently it has become an industry norm in Hong Kong for most of the newly built residential buildings and property projects to be pre-equipped with HVAC systems, the demand for HVAC engineering and services will grow with the need for additional floor space in Hong Kong.

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High population density in Hong Kong

Owing to the geographical landscape of Hong Kong where over 60% of the land is covered with hills and nature, the supply of usable land for residential use has been a major issue in the city. Therefore, population density remains high in the city as it is closely packed with high-rise buildings to better utilise land resources. As a result, residential occupants in the city are expected to invest in air conditioning equipment for better ventilation within their premises driven by the demand for better indoor air circulation, favouring the HVAC engineering and services market in Hong Kong.

Increasing awareness on public health and sustainability

Good air circulation and filtration is vital for public health in indoor areas. The past outbreaks of deadly diseases in Hong Kong such as SARS, swine flu and bird flu, to a large extent, have raised public awareness on health and hygiene. This has resulted in an increased emphasis on air ventilation, which has driven the HVAC engineering and services market in Hong Kong. Also, there is an increase in demand for green HVAC systems due to the rising awareness on sustainability among residential occupants. The growing awareness on the environmental and public health effect of conventional HVAC systems has provided growth momentum on HVAC engineering and services market.

Replacement of air conditioners

As of the end of 2017, total stock of residential premises in private sector and public sector in Hong Kong reached over 2.3 million units, equivalent to nearly 70 million sq.m., much greater than the level of annual completed new residential floor areas. The average use life of residential HVAC systems is around 10 years and increasing number of installed HVAC systems are in need for replacement. With the increasing awareness on health effect and demand for better living environment among residents, the growing market for replacement of outdated air conditioners will also add to drive the HVAC engineering and services market.

Entry Barriers

Established Supply Chain

The existing major HVAC engineering and services market players have already built a good and successful business relationship with property developers, main contractors and equipment suppliers. The market leaders in the HVAC engineering and services industry often have a good reputation for the quality of their work and established sophisticated supply chain with upstream and downstream suppliers and/or service providers. It will be costly and time consuming for new entrants to break the current supply chain and enter into the new development property segment of HVAC engineering and services market in Hong Kong.

Capital Requirement

A significant amount of capital is required to start and sustain a scaled operation in the HVAC engineering and services industry to undertake bulk projects due to the high operation cost of labours, material supplies and warehouses for storage. Thus, the requirement of large capital can be regarded as one of the major entry barriers for most new small or medium size market entrants to compete for bulk projects as they often lack large initial capital and sufficient cash flow to sustain and compete with the established major players. First-tier HVAC subcontractors are generally required to provide HVAC systems procurement and such requirement is increasingly common in the industry, as this could better integrate the procurement process with the installation process to enhance quality and efficiency, and allows the property developers/main contractors to streamline its internal project management and responsibility allocation. It is also not uncommon for companies (including listed companies) to be required to pay surety bond as part of the conditions to securing a tender. Therefore, the capital requirement for first-tier HVAC subcontractors is increasing.

Price Competition

One of the significant barriers of entry in the HVAC engineering and services market is price competition. New market entrants that are trying to enter the competitive market are often forced to reduce the price of their services to remain competitive as the well-established contractors are often more cost-efficient with more sophisticated supply chain support and distribution channels. Thus, the new market players would be difficult to sustain in such competitive market with low profit margin.

Market and Technical Know-how

Shortage of skilled labour is currently one of the major issues in the construction industry in Hong Kong. It therefore poses as an entry barrier for the new market entrant to hire team(s) of experienced and skilled engineers and workers with market and technical know-how for HVAC engineering and services which would cripple the overall capability of the market entrants.

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Market Trends and Future Opportunities

Green and Energy Saving Buildings

Intelligent and smart buildings have become the future trend as the public's consciousness on sustainable development increases. Moreover, the regulatory bodies in Hong Kong have set a systematic approach to assess the green elements and building sustainability, including Building Environmental Assessment Method (BEAM) and BEAM Plus. Also developers are paying more attention to carbon emission and environmental issues. This will drive the trend of green, energy saving and high-performance building system in Hong Kong and provides opportunity for supplier of high-efficiency HVAC equipment and engineering services.

In Hong Kong, about 90% of the electricity consumption is contributed by buildings. To further promote building energy efficiency, the Government enacted the Building Energy Efficiency Ordinance in 2012 to ensure that the developers or building owners install air conditioning equipment with the design standards of the Building Energy Code (BEC), launched by the Electrical and Mechanical Services Department of Hong Kong. Therefore, this has increased the demand for HVAC systems, favouring the HVAC engineering and services market.

Market Consolidation

The HVAC engineering and services market in Hong Kong is entering a relatively mature stage. The market is seen to be horizontally consolidating with players competing for higher market share and with weaker companies being eliminated, which provides opportunity for strong players to capture more market share and consolidate resources to enlarge their business scale.

Threats

Shortage of Qualified Staffs

Various technical staffs are required to conduct HVAC engineering works, including electrical control worker, sheet metal worker, thermal insulation craftsman, etc.. A qualified technical staff need to receive certain amount of training. Currently, there is a gap between the supply and demand of qualified staff in Hong Kong. The slow growth of labour supply is a major threat to the HVAC engineering and services providers in Hong Kong.

Increase in Labour Cost

Since there is a shortage of manpower in the HVAC engineering and services industry and the general average wages of workers in Hong Kong have increased, the increase in labour cost is one of the treats in the HVAC engineering and services industry. Companies with relatively low profitability may have difficulties in withstanding the pressure of the increasing labour cost.

Delay of Development Plan

Shortage of labour in the construction industry, rising construction cost and the change in government budget may cause delay of project development plan in Hong Kong and the schedule of HVAC engineering and services may be adversely affected. The overall operating costs may increase and the business plan of the HVAC engineering and services companies may be intervened.

COMPETITIVE ADVANTAGES

According to the Frost & Sullivan Report, our Group ranked 11 and accounted for approximately 1.6% of the market share in terms of revenue contribution in the overall HVAC engineering and services market in Hong Kong in 2017 and held an estimated 12.0% market share of the HVAC engineering and services market in the residential sector in Hong Kong in 2017. For further details of our competitive strengths, please refer to the paragraph headed "Business — Competitive strengths" in this prospectus.

RELIABILITY OF INFORMATION IN THE FROST & SULLIVAN REPORT

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact in the information therein. Our Directors are therefore of the view that the data statistics contained herein are reliable.

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

A. LAWS AND REGULATIONS IN RELATION TO OUR GROUP'S E&M ENGINEERING BUSINESS

Electricity Ordinance (Chapter 406 of the Laws of Hong Kong)

Under section 2 of the Electricity Ordinance, “electrical work” refers to work in relation to the installation, commissioning, inspection, testing, maintenance, modification or repair of a low voltage or high voltage fixed electrical installation and includes the supervision and certification of that work and the certification of design of that installation. All workers engaged in electrical work on fixed electrical installations must be registered with the EMSD. Examples of fixed electrical installations are distribution boards, wiring installations and lighting fittings that are fixed in premises. Workers engaged in electrical installations other than fixed electrical installations, for instance, portable electrical home appliances such as table lamps, television sets, refrigerators, need not be registered.

Electrical works are further classified into five grades (grade A, B, C, R and H) based on the voltage and capacity of electricity involved in an electrical installation and industry specialisation. Only a registered electrical worker (“**REW**”) registered with the EMSD under the Electricity Ordinance shall do the electrical works specified in his certificate of registration. A non-REW can only do electrical work provided that the non-REW works under the oral or written instruction of a REW, except certifying a fixed electrical installation complies with the Electricity Ordinance, or working on energised parts of a fixed electrical installation when the non-REW is not immediately adjacent to the REW.

To register as a REW to do electrical works in at least one grade, an individual shall satisfy the Director of the EMSD that he has the qualification to do electrical work in the relevant grades as set out in Part III of the Electricity (Registration) Regulations (Chapter 406D of the Laws of Hong Kong), such as completion of the prescribed apprenticeship or training, possessing craftsmanship, academic qualification or practical experience in electrical engineering and electrical works, or passing the prescribed examination or trade test.

As at the Latest Practicable Date, 24 of our staff were REW.

A corporate applicant must have at least one employee who is REW to qualify as a registered electrical contractor (“**REC**”) registered with the EMSD under the Electricity Ordinance. No contractor shall do business as an electrical contractor or carry out electrical works unless it is a REC.

A registration for REW or REC is valid for the 3 year period shown on the certificate of registration. A REW or REC shall apply to the Director of the EMSD for renewal of its/his registration within one to four months prior to the date of expiry of the registration. Where the Director of the EMSD considers that there is evidence that a REW or a REC has failed to comply

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with the Electricity Ordinance, he may: (i) reprimand the worker or contractor, and/or fine a worker up to HK\$1,000 and a contractor up to HK\$10,000; or (ii) refer the matter to the Secretary for Environment for hearing by a disciplinary tribunal, who may do one or more of the following: (a) reprimand the registrant; (b) fine a worker up to HK\$10,000 and a contractor up to HK\$100,000; (c) suspend or cancel the registration of the registrant; (d) suspend the registrant's right to apply for registration or renewal of registration for a prescribed period.

The Director of the EMSD may cancel a registration if he considers that: (i) the registrant obtained registration by fraud or on the basis of misleading or inaccurate information; (ii) the registration was made in error; or (iii) the registrant is no longer qualified under the Electricity Ordinance to be registered.

As at the Latest Practicable Date, Man Tung AC E&M and Man Tung AC Works are Registered Electrical Contractor registered with the EMSD.

Heating, Ventilation and Air-conditioning (HVAC) Systems

For more details on the registration regimes for minor works contractors engaged in the provision of HVAC E&M engineering services, please refer to the paragraph headed "B. Laws and regulations in relation to contractors registration" in this section.

B. LAWS AND REGULATIONS IN RELATION TO CONTRACTORS REGISTRATION

Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) and Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) ("Minor Works Regulation")

Sections 8, 8A, 8B, 8C, 8D, 8E and 8F of the Buildings Ordinance govern the current contractors registration system. The Buildings Ordinance requires that a contractor carrying out building works in Hong Kong to register with the Building Authority as a general building contractor, a specialist contractor, or a minor works contractor.

Under the Buildings Ordinance, "building works" means any kind of building construction, site formation works, ground investigation in scheduled areas, foundation works, repairs, demolition, alteration, addition and every kind of building operation and drainage works. Under the Minor Works Regulation, a subsidiary legislation under the Buildings Ordinance, certain building works are specified as "minor works", which could be carried out without the Building Authority's prior approval of building plans and consent to commence works.

The Building Authority maintains a register of minor works contractors who are qualified to carry out minor works belonging to the class, type and item specified in the register in which they are registered. Minor works contractors shall only carry out such minor works belonging to the class, type and item specified in the register in which they are registered. Unless registration is removed by a disciplinary order, registration is valid for a period of three years from the date on which a person's name is included in the register. Registration can be renewed upon its expiry by making prior application to the Building Authority in accordance with section 14 of the Minor Works Regulation. Application for renewal of registration should be made by the registered contractor to the Building Authority not earlier than four months and not later than 28 days prior to the date of expiry of the registration. Provided the application is made within the time limit and the

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renewal fee is paid, the existing registration will remain in force until the application for renewal is finalised by the Building Authority. Once renewed, a registration is valid for a period of three years from the expiry date of the previous registration.

Minor works are categorised into 3 classes: Class I, Class II & Class III. Class I comprises more complicated minor works and requires higher technical expertise and more stringent supervision, including the appointment of a prescribed building professional (“**Building Professional**”), such as an authorised person and where necessary, a registered structural engineer and/or a registered geotechnical engineer; Class II comprises works of a lower complexity while Class III comprises common household minor works, both of which can be carried out by registered contractors without the involvement of a Building Professional. Under each class of minor works, it will be further sub-divided into different types and items that correspond to the specialisation of works in the industry: (i) Type A (Alternation and Addition works); (ii) Type B (Repair Works); (iii) Type C (Works relating to Signboards); (iv) Type D (Drainage Works); (v) Type E (Structures for Amenities Related Works); (vi) Type F (Finishes Works); and (vii) Type G (Demolition Works). A contractor carrying out class I and class II minor works must be a company while a contractor carrying out class III minor works only can either be a company or an individual.

Under section 12(5) of the Minor Works Regulation, the Building Authority must not allow an application for registration as a registered minor works contractor unless the Authority is satisfied that:

- (i) in respect of each type of minor works under each class to which the application relates, at least one individual nominated as an authorised signatory for the type of minor works (a) has the qualifications and experience specified by the Building Authority; and (b) has the ability to understand that type of minor works through relevant experience and a general knowledge of the basic statutory requirements;
- (ii) the applicant has access to plants and resources;
- (iii) if the applicant is a corporation, (a) its management structure is adequate; and (b) at least one of its directors has the qualifications and experience specified by the Building Authority; and
- (iv) the applicant is suitable for registration in the register.

Under section 12(6) of the Minor Works Regulation, in deciding whether the applicant is suitable for registration in the register, the Building Authority must take into account: (i) whether the applicant and the individual nominated as authorised signatory have any criminal record in respect of any offence under the laws of Hong Kong relating to the carrying out of any building works; and (ii) whether any disciplinary order has been made against the applicant or the individual.

The Building Authority will consider the qualification, experience and suitability of the following key personnel of the applicant in each application: (i) a minimum of one person appointed by the applicant to act for the applicant for the purpose of the Buildings Ordinance as the authorised signatory; and (ii) for a corporation, a minimum of one director from the board of

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directors of the applicant as the technical director, who is authorised by the board to: (a) have access to plants and resources; (b) provide technical and financial support for the execution of minor works; and (c) make decisions for our Company and supervise the authorised signatory specified in (i) and other personnel. For a corporate applicant, a suitable person appointed by the board of directors is eligible to act as the authorised signatory and a director of the board of directors is eligible to act as the technical director.

As regards to our Group, as at the Latest Practicable Date, Shun Tung and Man Tung AC E&M were registered as minor works contractors for Type A (Classes II and III), Type D (Classes II & III) and Type E (Classes II and III) respectively. Mr. Tony Cheung is the authorised signatory for Type D (Classes II and III) minor works; Mr. Tony Cheung and Mr. Wong Tak On are the authorised signatories for Types A and E (Classes II and III) minor works and Mr. Tony Cheung is the technical director of Man Tung AC E&M. On the other hand, Mr. Yip Kam Ming is our authorised signatory for Types A, D and E (Classes II and III) and Mr. Gary Cheung is the technical director of Shun Tung. For details, please refer to the paragraph headed “Business — Licences and permits” in this prospectus.

Under section 13 of the Buildings Ordinance, a registered contractor (including a registered specialist contractor or a registered minor works contractor), or the director, officer or person appointed by the registered contractor to act on its behalf for the purposes of the Buildings Ordinance (collectively, the “**persons subject to inquiry**”) may be subject to inquiry by the disciplinary board appointed by the Building Authority under section 6 of the Buildings Ordinance where appropriate. The disciplinary board may, among others, order that: (i) the name of the person subject to inquiry be removed from the relevant register, either permanently or for such period as the disciplinary board thinks fit; (ii) the person subject to inquiry be fined, in the case of building works (other than minor works), a sum not exceeding HK\$250,000 or in the case of minor works, a sum not exceeding HK\$150,000; (iii) the person subject to inquiry be reprimanded; and (iv) the person subject to inquiry be prohibited from certifying or carrying out certain works, either permanently or for such period as the disciplinary board thinks fit.

Subcontractor Registration Scheme of Construction Industry Council (“SRS”)

To tender for and carry out capital works and maintenance works contracts in the public sector of Hong Kong as subcontractors, subcontractors shall be registered in one or more of the 52 trades in the Primary Register of the SRS (formerly known as the Voluntary Subcontractor Registration Scheme) managed by the CIC. In broad, the 52 trades cover common structural, civil, finishing, E&M works as well as supporting services. Some trades are further classified into different specialties with reference to the specialisations of the relevant industry. An approved contractor in relation to capital works and maintenance works in the public sector of Hong Kong is required to employ subcontractors registered from the respective trades available under the SRS.

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To apply for registration in a trade on the Primary Register of the SRS, a corporate subcontractor shall comply with the following major entry requirements:

Criteria	Major items
Project undertaken or comparable experience	: completion of at least one job within the last five years as a main contractor or subcontractor in the trades and specialties for which registration is applied, or comparable experience acquired by the applicant or its directors within the last five years; or
Qualifications on Hong Kong Government registration scheme	: listings on one or more government registration schemes relevant to the trades and specialties for which registration is sought; or
Qualifications/working experience on board of directors	: the applicant or its director having been employed by a registered subcontractor under the SRS for at least five years with experience in the trades and (where applicable) the specialties for which registration is sought, and having completed the prescribed training modules for subcontractors (or equivalent) conducted by the CIC; or the applicant or its director having registered as registered skilled worker under the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) for the relevant trade and (where applicable) the specialty with at least five years of relevant experience, and having completed the prescribed training modules conducted by the CIC.

An approved registration is valid for two years from the approval date. A registered subcontractor under the SRS shall apply for renewal within three months before expiry of the current registration by submitting an application in specified form and providing information and supporting documents to show continued compliance with the entry requirements. An approved renewal is valid for two years from the expiry of the current registration.

The CIC may take regulatory actions against a registered subcontractor on the Primary Register of the SRS where applicable. These regulatory actions include: (i) issue of warning notice to the registered subcontractor; (ii) directing the registered subcontractor to submit an improvement plan within a specified period; and (iii) suspension of registration for a specified period or revocation of registration and in both cases, the name of the registered subcontractor will be removed from the Primary Register of the SRS. A registered subcontractor whose registration has been revoked shall not be eligible for reregistration for a period of two years from the date of revocation.

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As at the Latest Practicable Date, Shun Tung was a registered subcontractor in the List of Registered Subcontractor on the Primary Register of the SRS. For details, please refer to the paragraph headed “Business — Licences and permits” in this prospectus.

C. LABOUR, HEALTH AND SAFETY LAWS AND REGULATIONS

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

The Factories and Industrial Undertakings Ordinance regulates the safety and health protection to workers in the industrial industry. The Factories and Industrial Undertakings Ordinance imposes general duties on proprietors and persons employed in the industrial sector to ensure safety and health at work by:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangement for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- as regards any workplace under the employer’s control, (1) maintaining the workplace in a condition that is safe and without risks to health; and (2) providing and maintaining safe access to and egress from the workplaces that are safe and without any such risks; and
- providing and maintaining a safe and healthy work environment.

A proprietor who contravenes these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes these duties wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for six months. Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), include (i) the prohibition of employment of persons under 18 years of age (save for certain exceptions); (ii) the maintenance and operation of hoists; (iii) the duty to ensure safety of places of work; (iv) prevention of falls; (v) the duty to comply with miscellaneous safety requirements; and (vi) provision of first aid facilities, etc. Contravening any of these rules shall be an offence and a contractor committing the relevant offence without reasonable excuse could be liable to a fine up to HK\$200,000 and imprisonment up to 12 months.

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

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

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

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

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

The Commissioner for Labour is empowered to issue (i) improvement notice against contravention of this Ordinance or the Factories and Industrial Undertakings Ordinance requiring employer to remedy the contravention within specific period/refrain from continuing or repeating the contravention or (ii) suspension notice directing specific activity not to be undertaken, or the premises, plant or substance not to be used, while the notice remains in force. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 (plus a further fine of HK\$50,000 for each day if contravention is knowingly and intentionally continued) respectively and imprisonment of up to 12 months.

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

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

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

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

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

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

Section 24 of the Employees' Compensation Ordinance provides that, a principal contractor shall be liable to pay compensation to subcontractors' employees who are injured in the course of their employment with the subcontractor. Under section 40(1B) of the ordinance, a principal contractor may take out a policy of insurance to cover for employees of the subcontractor(s) in view of its potential liability under section 24 but it is not mandatory for a principal contractor to take out insurance cover for employees of the subcontractor(s). The principal contractor may rely on insurance taken out by subcontractors as employer for the subcontractors' employees as required under section 40(1) of the ordinance. The principal contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employee. The employees in question are required to serve a notice in writing on the principal contractor before making any claim or application against such principal contractor.

Pursuant to section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). An employer who fails to comply with this ordinance to secure an insurance cover is liable on conviction upon indictment to a fine at level 6 and to imprisonment for two years.

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

A principal contractor is subject to the provisions on subcontractor's employees' wages in the Employment Ordinance. Section 43C of the Employment Ordinance provides that if any wages become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and superior subcontractor (where applicable) jointly and severally. A principal contractor's and superior subcontractor's (where applicable) liability shall be limited to (i) the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building work; and (ii) the wages due to such an employee for two months (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.

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A principal contractor who without reasonable excuse fails to serve notice on the superior subcontractors shall be guilty of an offence and shall be liable on conviction to a fine at level 5 (currently at HK\$50,000).

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

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 and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) should take all practicable steps to (i) prevent having illegal immigrants from being on site or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

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

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

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

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

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

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

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Under section 58 of the Construction Workers Registration Ordinance, a principal contractor/controller of a construction site is required to:

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

within 2 business days following the last day of the period concerned (section 58(7)(b) of the Construction Workers Registration Ordinance).

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

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

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

D. ENVIRONMENTAL PROTECTION

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

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

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including without limitation to the Air Pollution Control (Open Burning) Regulations (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

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(Smoke) Regulations (Chapter 311C of the Laws of Hong Kong). The contractor responsible for a construction site shall devise, arrange methods of working and carrying out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

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

The Noise Control Ordinance controls, among others, the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out general construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling between 7 a.m. and 7 p.m. on any day, not being a general holiday, construction noise permits are required from the Noise Control Authority in advance.

Under the Noise Control Ordinance, noisy construction work and the use of powered mechanical equipment in any place are not allowed between 7 p.m. and 7 a.m. or at any time on general holidays, unless prior approval has been granted by the Noise Control Authority through the construction noise permit system. Certain equipment is also subject to restrictions when its use is allowed. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Noise Control Authority. Percussive pile-driving is allowed on weekdays only with prior approval, in the form of a construction noise permit from the Noise Control Authority. Any person who is in contravention of the aforesaid provisions, according to the Noise Control Ordinance, shall be liable (a) on first conviction to a fine of HK\$100,000; (b) on second or subsequent conviction, to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

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

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

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, particularly 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 prescribed facilities. A main contractor who undertakes construction work with a value of HK\$1 million or above will be required to, within 21 days after being awarded the contract, make an application to the Director of Environmental Protection to establish a billing account to pay any disposal charges payable in respect of the construction waste generated from construction work undertaken under that contract.

REGULATORY OVERVIEW

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

Under the Waste Disposal Ordinance, a person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a licence from the Director of Environmental Protection 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, HK\$500,000 and to imprisonment for six months for a second or subsequent offence; and HK\$10,000 for each day during which the offence continues.

E. COMPETITION LAW

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

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

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

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

However, under section 67 of the Competition Ordinance, where a contravention of the first conduct rule has occurred and the contravention involves serious anti-competitive conduct or a contravention of the second conduct rule has occurred, the Competition Commission may, instead of bringing proceedings in the Tribunal in the first instance, issue a notice (an “**infringement notice**”) to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on condition that the person makes a commitment to comply with requirements of the

REGULATORY OVERVIEW

infringement notice. “Serious anti-competitive conduct” means any conduct that consists of any of the following or any combination of the following — (a) fixing, maintaining, increasing or controlling the price for the supply of goods or services; (b) allocating sales, territories, customers or markets for the production or supply of goods or services; (c) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services; (d) bid-rigging.

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

F. LAWS AND REGULATIONS IN RELATION TO LEVY

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

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

On and after 20 August 2012, the CIL chargeable is 0.5% of the total value of the construction operations (as defined under section 53 of the Construction Industry Council Ordinance) concerned (0.4% before 20 August 2012). Pursuant to section 32 and Schedule 5 of the Construction Industry Council Ordinance, no CIL is chargeable for any construction operations not exceeding HK\$1,000,000.

According to section 34 of the Construction Industry Council Ordinance, the contractor and authorised person each are required to inform the CIC in a specified form (Form 1) in respect of the construction operations within 14 days after its commencement. It is an offence if a person without reasonable excuse failed to give such notice and liable to a fine at level 1, which is fixed at HK\$2,000. Notice is only required for term contract or if the reasonable estimation of the total value of construction operations exceeds HK\$1,000,000.

Pursuant to section 35 of the Construction Industry Council Ordinance, a contractor is required to give a Notice of Payment (“**NOP**”) in a specified form (Form 2) to the CIC within 14 days after the contractor receives a payment in respect of the construction operation. It is an offence if a person without reasonable excuse fails to give the NOP and liable to a fine at level 3, which is fixed at HK\$10,000. Pursuant to section 36 of the CICO, a contractor is required to give a Notice of Completion (“**NOC**”) in a specified form (Form 3) to the CIC within 14 days after the completion of the construction operation. It is an offence if a person without reasonable excuse fails to give the NOC and liable to a fine at level 3, which is fixed at HK\$10,000.

REGULATORY OVERVIEW

The CIC shall assess the CIL payable upon receiving the NOP or NOC and give a Notice of Assessment (“NOA”) in writing specifying the amount of CIL. The CIC can also make the assessment notwithstanding no NOP or NOC has been given. According to section 41 of the Construction Industry Council Ordinance, if a contractor fails to give the NOP or NOC, a surcharge not exceeding twice the amount of the CIL payable may be imposed and a Notice of Surcharge (“NOS”) in writing shall be given by the CIC.

According to section 46 of the Construction Industry Council Ordinance, if the contractor fails to pay in full the amount of levy or surcharge within 28 days after the NOA or NOS is given, a 5% penalty of the unpaid amount shall be imposed. If the contractor still fails to pay the unpaid amount within 3 months after the expiry of 28 days, a further 5% penalty of the unpaid amount shall be imposed.

According to section 47 of the Construction Industry Council Ordinance, CIL, surcharge, penalty or further penalty is recoverable by the CIC as civil debt under the jurisdiction of the District Court. The time limits for the CIC to make the assessment or imposing the surcharge under sections 42 to 45 of the Construction Industry Council Ordinance are, whichever is the last of the following periods:

- (a) two years after the completion of all construction operations under the contract, or without term contract two years after the completion of the construction operations;
- (b) two years after the expiry of the period within which the contract stipulates that all such construction operations have to be completed; and
- (c) one year after evidence, sufficient in the opinion of the CIC to justify the making of the assessment, comes to its knowledge.

CIL was not applicable to our Group during the Track Record Period and up to the Latest Practicable Date but we expect that CIL may be applicable to us in the future.

G. OTHERS

Security of Payment Legislation for the Construction Industry

The Hong Kong Government has recently completed a public consultation on a new legislation for the construction industry to address unfair payment terms, payment delays and disputes and intended to proceed with such new legislation. The proposed SOPL is intended to encourage fair payment, rapid dispute resolution and increase cash flow in the contractual chain. When it comes into force, it is proposed that SOPL will apply to all written and oral contracts where construction works or plant and materials are being supplied for works in Hong Kong. All public sector construction contracts will be caught by the legislation, whereas only construction and supply contracts relating to a “new building” (as defined by the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong)) which has an original value in excess of HK\$5 million will be caught in private sector. However, where the proposed SOPL applies to the main contract, it will automatically apply to all subcontracts in the contractual chain.

REGULATORY OVERVIEW

It is proposed that the new legislation will:

- prohibit “pay when paid” and similar clauses in contracts. “Pay when paid” refers to provisions in contracts that (i) make payment contingent or conditional on the operation of other contract or agreement and (ii) make payment conditional on the payer receiving payment from a third party. Payers will not be able to rely on such clauses in dispute resolution forums;
- prohibit payment periods of more than 60 calendar days for interim payments or 120 calendar days for final payments;
- enable amounts due for construction work or materials or plant supplies to be claimed as statutory payment claims, upon receipt of which the payer has 30 calendar days to serve a payment response, and either party has a statutory right to refer the matter to adjudication for decision (typically a 60 day process); and give parties who have not been paid amounts admitted as due the right to suspend works until payment is made.

It is probable that some of our contracts will fall under the proposed SOPL and where such contracts are subject to the new legislation we will have to ensure that their terms comply with the new legislation in this regard. The proposed SOPL is designed to assist contractors throughout the contractual change to ensure cash-flow and access to a swift dispute resolution process and therefore it is generally considered that where the proposed SOPL applies, this will have a positive impact on ensuring that we and our subcontractors or suppliers get paid in a timely manner.

As at the Latest Practicable Date, the implementation date of the proposed SOPL has not been announced. In light of the above, we plan to implement the following measures to comply with the proposed SOPL once it becomes effective:

- (1) for future contracts with our subcontractors and/or suppliers, we will ensure the terms comply with the new SOPL;
- (2) among all the contracts with our suppliers and subcontractors, we have identified five projects with a total of twelve on-going contracts with our subcontractors which contain “pay when paid” clauses and may be caught by the SOPL, if and when implemented. We have prepared draft supplemental contracts with payment terms that comply with the currently proposed terms of the SOPL and will finalise such supplemental contracts and arrange for execution with our subcontractors once the SOPL is implemented; and
- (3) we will review our internal financial resources on a regular basis and ensure sufficient cash flow to pay for our subcontractors and/or suppliers in compliance with the requirements under the new SOPL.

Given the small number of contracts which will fall under the proposed SOPL and that all related works have been completed in preparation of the implementation of the SOPL, our Directors are of the view that the SOPL, if and when implemented, will have minimal impact on our business. Also, given that our existing payment practice with major subcontractors generally satisfies the 60 calendar day interim payment period requirement under the proposed SOPL, our

REGULATORY OVERVIEW

Directors are of the view that the enactment of the SOPL under its currently proposed framework would not result in material change in respect of our actual payment schedule with subcontractors under the existing contractual arrangements nor have any material impact on our Group's liquidity.

The proposed SOPL is subject to the finalisation of the legislation framework and the legislative process by the Hong Kong Government. Therefore, the actual scope of application of the proposed SOPL and its impact on our Group's future operations above may be subject to further change.

HISTORY, DEVELOPMENT AND REORGANISATION

OVERVIEW

The history of our Group can be traced back to 1996. On 19 November 1996, Man Tung AC Works was incorporated in Hong Kong with limited liability with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, held by Mr. Gary Cheung and Mr. Tony Cheung in equal share, to carry on the business of HVAC E&M engineering services as subcontractor in Hong Kong. Mr. Tony Cheung and Mr. Gary Cheung invested in Man Tung AC Works with their own financial resources. Having recognised the growth potential in the HVAC E&M engineering services industry, Mr. Tony Cheung and Mr. Gary Cheung expanded our Group's business by establishing Shun Tung on 6 November 1998 and Man Tung AC E&M on 9 April 2008.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 April 2017 for the purpose of the Listing, with an initial authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Upon completion of a series of share transfers under the Reorganisation as detailed in the paragraph headed "Reorganisation" in this section below, our Company became the ultimate holding company of our Group and holds the entire issued share capital of our Operating Subsidiaries, namely Man Tung AC Works, Shun Tung and Man Tung AC E&M.

Over the years, we have continuously strengthened our capability to capture business opportunities through expanding our project team, building up our professional qualifications by obtaining various registrations and certifications from relevant government bodies/public organisations, and continuously developing our project portfolio and solidifying our client base. Under the leadership of Mr. Tony Cheung and Mr. Gary Cheung, we position ourselves as an established subcontractor of HVAC E&M engineering services with a general focus on servicing residential property development projects in Hong Kong. Throughout our business history, we have undertaken HVAC E&M engineering projects for various sizeable residential property development projects and successfully established business relationships with prominent property developers, established construction and HVAC E&M contractors and well-known distributors of major HVAC brands in Hong Kong.

The following table sets forth our major development milestones since our inception up to the present scale of operation:

Year	Event
1996	Man Tung AC Works was established by Mr. Tony Cheung and Mr. Gary Cheung
1998	Shun Tung was established by Mr. Tony Cheung and Mr. Gary Cheung
1998	We were first awarded project of supply and installation of HVAC systems for the whole residential property development project in Tseung Kwan O
2001 and 2002	We were awarded a residential property development project nearby railway station in West Kowloon in which we have installed in aggregate over 10,000 HVAC systems
2006	Shun Tung was registered as Registered Electrical Contractor under the EMSD
2008	Man Tung AC E&M was established by Mr. Tony Cheung

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Event
2008	Man Tung AC E&M was registered as Registered Electrical Contractor under the EMSD
2009	We were awarded project of installation of HVAC systems with a total contract sum exceeding HK\$20 million
2016	Shun Tung became an associate member of The Hong Kong Air Conditioning And Refrigeration Association Limited
2016	Shun Tung was registered as a registered subcontractor in Electrical, Heating, Ventilation and Air-Conditioning trade
2017	Shun Tung achieved ISO 9001:2015 Quality Management System

As at the Latest Practicable Date, we have not identified any target for acquisition and do not have any acquisition plan.

For further details of the awards and recognitions received by our Group, please refer to the paragraph headed “Business — Awards and recognitions” in this prospectus.

CORPORATE HISTORY

Our Subsidiaries in Hong Kong

Man Tung AC Works

Man Tung AC Works was incorporated in Hong Kong on 19 November 1996 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same date, 5,000 shares and 5,000 shares were allotted and issued to each of Mr. Gary Cheung and Mr. Tony Cheung, respectively. Since then Man Tung AC Works had been owned as to 50% by Mr. Gary Cheung and 50% by Mr. Tony Cheung until 2003.

On 28 February 2003, Mr. Gary Cheung transferred 5,000 shares of Man Tung AC Works to Ms. Lam Shing Ying, mother of Mr. Gary Cheung and Mr. Tony Cheung, at a nominal consideration of HK\$1.00. Upon completion of such transfer, Man Tung AC Works was owned as to 50% by Mr. Tony Cheung and 50% by Ms. Lam Shing Ying.

On 30 March 2006, Ms. Lam Shing Ying transferred 5,000 shares of Man Tung AC Works back to Mr. Gary Cheung at the same nominal consideration of HK\$1.00. Upon completion of such transfer, Man Tung AC Works was owned as to 50% by Mr. Tony Cheung and 50% by Mr. Gary Cheung.

On 4 July 2009, the authorised share capital of Man Tung AC Works was increased to HK\$1,000,000 divided into 1,000,000 shares of HK\$1.00 each, of which 990,000 new shares were allotted and issued at par to Mr. Tony Cheung. Upon the completion of such allotment and issue, Man Tung AC Works was owned as to 99.5% and 0.5% by Mr. Tony Cheung and Mr. Gary Cheung respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

On 24 September 2009, Mr. Gary Cheung transferred 5,000 shares of Man Tung AC Works to Mr. Tony Cheung at a nominal consideration of HK\$1.00. Upon completion of such transfer, Man Tung AC Works was wholly owned by Mr. Tony Cheung.

On 29 December 2015, Mr. Tony Cheung transferred 1,000,000 shares of Man Tung AC Works to Treasure Express at the consideration of HK\$1,000,000 which was determined with reference to the par value of the shares transferred and was settled. Upon completion of such transfer, Man Tung AC Works was wholly owned by Treasure Express.

Shun Tung

Shun Tung was incorporated in Hong Kong on 6 November 1998 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same date, 9,000 shares and 1,000 shares were allotted and issued to each of Mr. Tony Cheung and Mr. Gary Cheung, respectively. Since then Shun Tung had been owned as to 90% by Mr. Tony Cheung and 10% by Mr. Gary Cheung until 2008.

On 11 September 2008, Mr. Tony Cheung transferred 9,000 shares of Shun Tung to Mr. Gary Cheung at a nominal consideration of HK\$1.00. Upon completion of such transfer, Shun Tung was wholly owned by Mr. Gary Cheung.

On 11 December 2015, Mr. Gary Cheung transferred 10,000 shares of Shun Tung to City Flourish at the consideration of HK\$10,000 which was determined with reference to the par value of the shares transferred and was settled. Upon completion of such transfer, Shun Tung was wholly owned by City Flourish.

Man Tung AC E&M

Man Tung AC E&M was incorporated in Hong Kong on 9 April 2008 with an authorised share capital of HK\$1.00 divided into 1 share of HK\$1.00 each. On the same date, 1 share was allotted and issued to Mr. Tony Cheung. On 20 March 2015, 999,999 shares of Man Tung AC E&M were allotted and issued to Mr. Tony Cheung. Man Tung AC E&M remained wholly owned by Mr. Tony Cheung since its incorporation until 2015.

On 29 December 2015, Mr. Tony Cheung transferred 1,000,000 shares of Man Tung AC E&M to Treasure Express at the consideration of HK\$1,000,000, determined with reference to the par value of the shares transferred and was settled. Upon completion of such transfer, Man Tung AC E&M was wholly owned by Treasure Express.

Our Subsidiaries in Seychelles

City Flourish

City Flourish was incorporated in Seychelles on 3 November 2015 with an authorised share capital of US\$1,000,000.00 divided into 1,000,000 ordinary shares of US\$1.00 each. On 10 December 2015, 100 ordinary shares were allotted and issued to Mr. Gary Cheung at the consideration of US\$100.00 and City Flourish was wholly owned by Mr. Gary Cheung.

HISTORY, DEVELOPMENT AND REORGANISATION

On 30 December 2015, Mr. Gary Cheung transferred 51 ordinary shares of City Flourish to Mr. Tony Cheung at a nominal consideration of US\$51.00. Upon completion of such transfer, City Flourish was owned as to 49% by Mr. Gary Cheung and 51% by Mr. Tony Cheung.

Treasure Express

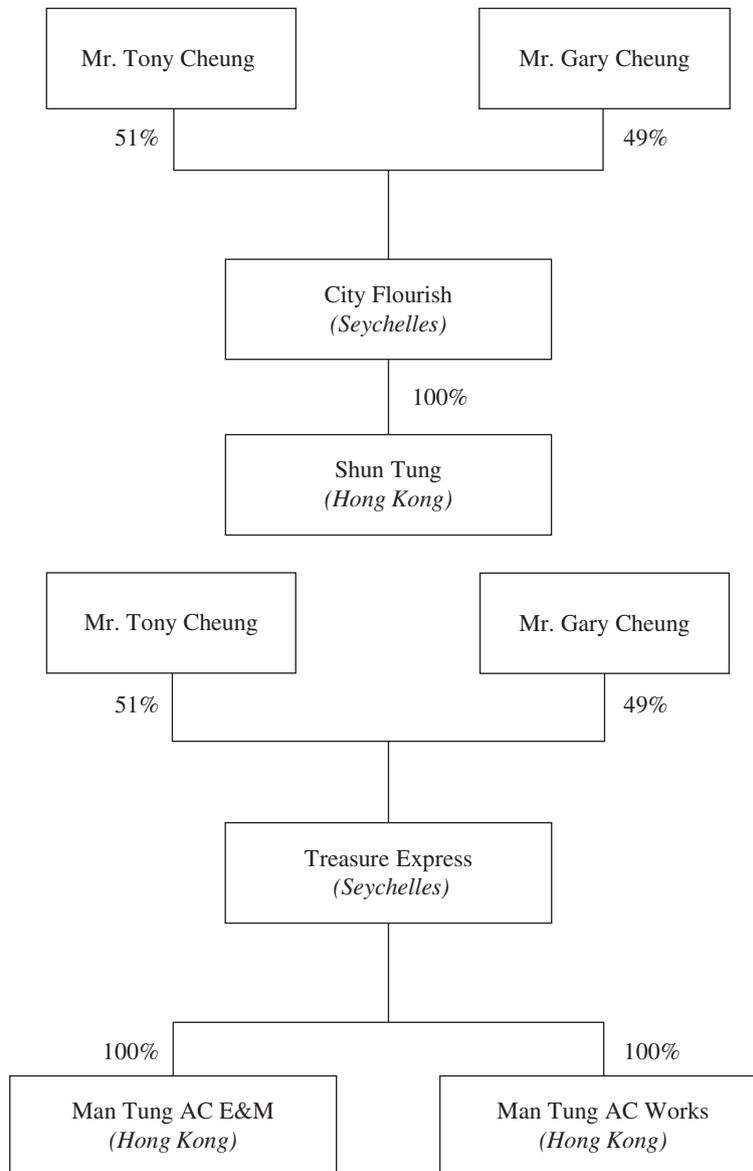
Treasure Express was incorporated in Seychelles on 9 December 2015 with an authorised share capital of US\$1,000,000.00 divided into 1,000,000 ordinary shares of US\$1.00 each. On the same date, 100 ordinary shares were allotted and issued to Mr. Tony Cheung at a consideration of US\$100.00 and Treasure Express was wholly owned by Mr. Tony Cheung.

On 30 December 2015, Mr. Tony Cheung transferred 49 ordinary shares of Treasure Express to Mr. Gary Cheung at a consideration of US\$49.00. Upon such transfer, Treasure Express was owned as to 51% by Mr. Tony Cheung and 49% by Mr. Gary Cheung.

HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

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



Our Group completed the Reorganisation on 16 June 2017 in preparation for the Listing, pursuant to which our Company became the holding company of our Group.

HISTORY, DEVELOPMENT AND REORGANISATION

The Reorganisation involved the following steps:

(1) Incorporation of Prime Pinnacle

On 8 March 2017, Prime Pinnacle was incorporated in Seychelles with liability limited by shares. On the date of incorporation, Prime Pinnacle was authorised to issue a maximum of 1,000,000 shares of a single class with a par value of US\$1.00 each. On 8 March 2017, 51 and 49 ordinary shares of par value US\$1.00 were allotted and issued as fully-paid to Mr. Tony Cheung and Mr. Gary Cheung respectively.

(2) Incorporation of Our Company

Our Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law on 11 April 2017 and was registered under Part 16 of the Companies Ordinance as a registered non-Hong Kong company on 24 August 2017. It had an initial authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares with par value of HK\$0.01 each. On the date of incorporation, one nil-paid subscriber Share was allotted and issued to the initial subscriber to the memorandum of association of our Company, which was subsequently transferred to Prime Pinnacle on the same date. As at the Latest Practicable Date, our Company had an authorised share capital of HK\$50,000,000 divided into 5,000,000,000 ordinary shares with par value of HK\$0.01 each. Immediately following completion of the Reorganisation, our Company became the holding company of our Group and was wholly-owned by Prime Pinnacle.

(3) Transfer of shares of Treasure Express to our Company

On 16 June 2017, Mr. Tony Cheung, Mr. Gary Cheung, Prime Pinnacle and our Company entered into a sale and purchase agreement, pursuant to which our Company acquired 51 shares and 49 shares of Treasure Express (representing the entire issued share capital of Treasure Express) from Mr. Tony Cheung and Mr. Gary Cheung, respectively, and, in consideration of such share transfers, (i) our Company issued and allotted an aggregate of 100 Shares, credited as fully paid, to Prime Pinnacle (at the direction of Mr. Tony Cheung (as to 51 Shares) and Mr. Gary Cheung (as to 49 Shares)); and (ii) credited the one nil-paid Share held by Prime Pinnacle as fully paid Share. After the completion of the transaction (which took place on 16 June 2017), the entire issued share capital of Treasure Express is owned by our Company.

(4) Transfer of shares of City Flourish to our Company

On 16 June 2017, Mr. Tony Cheung, Mr. Gary Cheung, Prime Pinnacle and our Company entered into a sale and purchase agreement, pursuant to which our Company acquired 51 ordinary shares and 49 ordinary shares of City Flourish (representing the entire issued share capital of City Flourish) from Mr. Tony Cheung and Mr. Gary Cheung, respectively, and, in consideration of such share transfers, our Company issued and allotted 99 Shares, credited as fully paid at par, to Prime Pinnacle (at the direction of Mr. Tony Cheung (as to 50 Shares) and Mr. Gary Cheung (as to 49 Shares)). After the completion of the transaction (which took place on 16 June 2017), the entire issued share capital of City Flourish is owned by our Company.

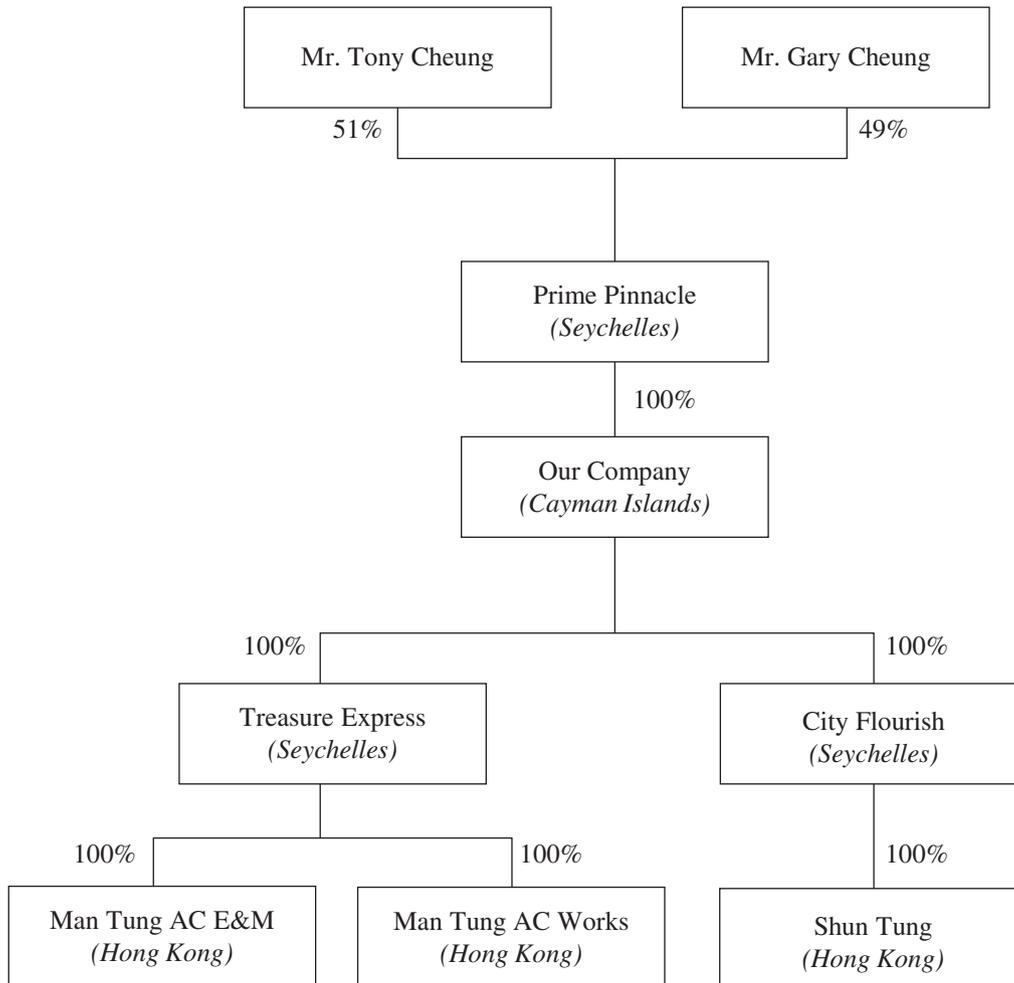
HISTORY, DEVELOPMENT AND REORGANISATION

Upon completion of the Reorganisation on 16 June 2017, our Company became the holding company of our Group.

Compliance with applicable laws and regulations

As confirmed by our Directors, each of the Share transfers made in the Reorganisation was properly and legally completed and settled. No approval is required from relevant regulatory authorities for the Reorganisation.

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

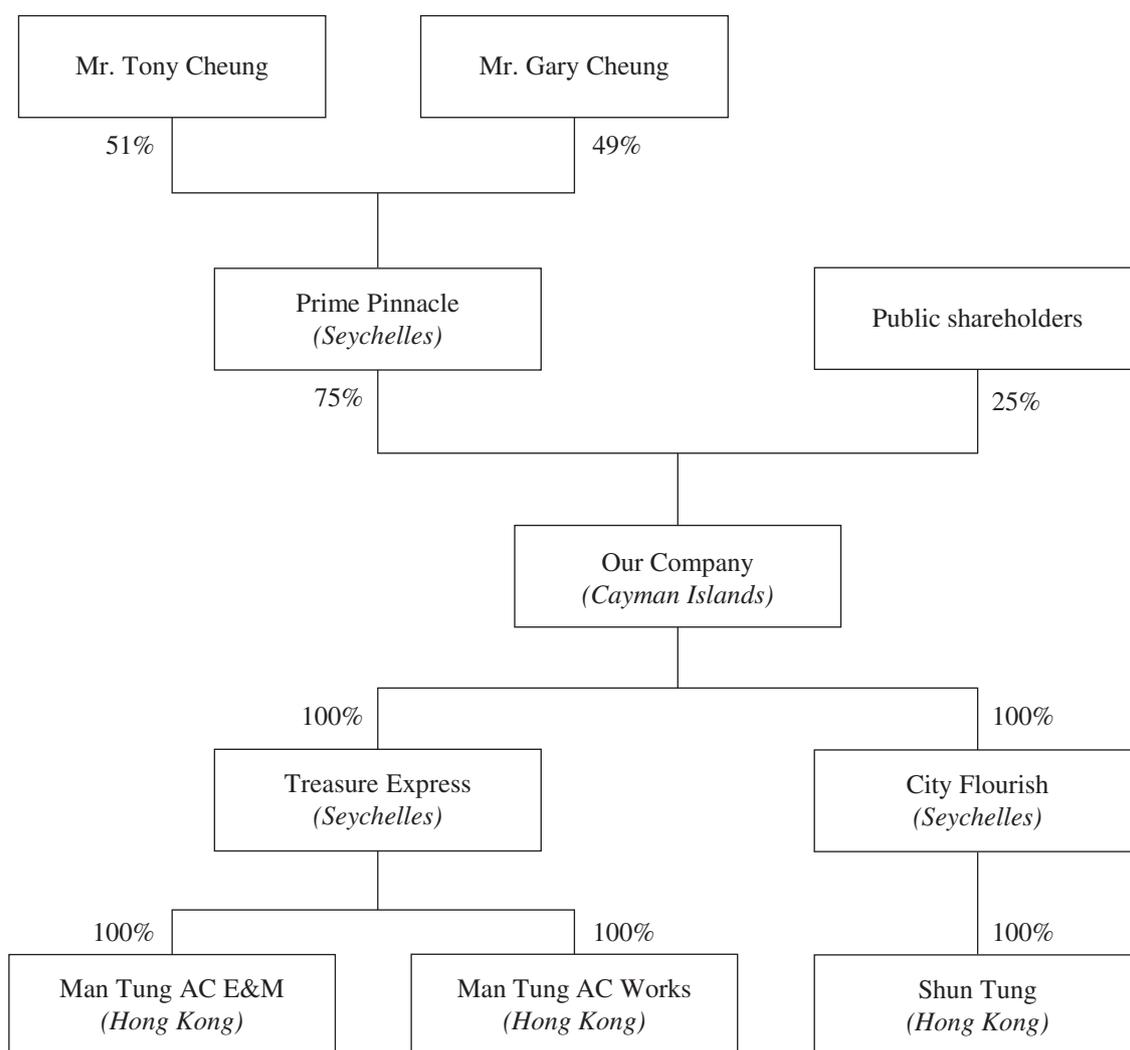


HISTORY, DEVELOPMENT AND REORGANISATION

Capitalisation Issue and Share Offer

Conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the Share Offer, HK\$7,499,998 will be capitalised from the share premium amount and applied in paying up in full at par 749,999,800 new Shares for allotment and issue to Prime Pinnacle, being our sole Shareholder as at 8 June 2018.

The following chart sets forth the shareholding structure of our Group immediately following the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):



HISTORY, DEVELOPMENT AND REORGANISATION

CONCERT PARTY ARRANGEMENT

Over the course of our business history, Mr. Tony Cheung and Mr. Gary Cheung, as siblings, were either the legal owners of the shares of the relevant Operating Subsidiaries comprising our Group, or shared the operating results in these Operating Subsidiaries as business partners. Each of Mr. Tony Cheung and Mr. Gary Cheung, in making and implementing key decisions regarding the finance, management and operation of the Operating Subsidiaries, has been acting in concert with one another to exert management influence on the operation and management of our Group as a controlling group and to ensure that the business of the Operating Subsidiaries is heading to a direction consistent with the overall business strategy of our Group as a unified group since the parties had joined. As we were a group of private entities in the past, these arrangements were not formalised in writing and each of Mr. Tony Cheung and Mr. Gary Cheung was content with these arrangements based on, aside from their kinship, their close and long-term business relationship, as well as the trust and confidence they have in one another.

Mr. Tony Cheung and Mr. Gary Cheung have confirmed that the concert party arrangements with respect to each Operating Subsidiary had become effective since they were/are either the legal owners of the shares of, and/or the business partners in, the relevant Operating Subsidiaries.

On 12 March 2018, in preparation for the Listing, Mr. Tony Cheung and Mr. Gary Cheung executed the Concert Party Deed, whereby they confirmed the existence of their concert party arrangements in the past, as well as their intention to continue to act in the above manner upon the Listing to consolidate their control of our Group until the Concert Party Deed is terminated by them in writing. The Concert Party Deed covers our Company and all of our Operating Subsidiaries, namely, Man Tung AC Works, Shun Tung and Man Tung AC E&M.

According to the Concert Party Deed, with respect to the businesses of the Operating Subsidiaries, each of Mr. Tony Cheung and Mr. Gary Cheung confirmed to one another that, since they were/are either the legal owners of the shares of, and/or the business partners in, the relevant Operating Subsidiaries and until and unless terminated by the parties in writing:

- (a) they have consulted and engaged in, and shall continue to consult one another and engaged in, discussion with a view to reaching unanimous consensus among themselves on such matters being the subject matters of any shareholders' resolutions and, including but not limited to, all operating, financial management and strategic decisions, prior to putting forward such resolutions to be passed at any shareholders' meeting of the Operating Subsidiaries and our Company (as the case may be) and have historically voted on such resolutions unanimously;
- (b) where there was or is any suitable business opportunity for our Group, the parties have engaged in, and shall continue to engage in, discussion as to whether they should participate and, if so, in whose name amongst themselves they should participate and the extent of participation in terms of investment and management; and
- (c) the parties have centralised, and shall continue to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses of our Group as an integrated enterprise.

HISTORY, DEVELOPMENT AND REORGANISATION

Hence, pursuant to the Concert Party Deed, Mr. Tony Cheung, Mr. Gary Cheung and Prime Pinnacle, being the holding vehicle of Mr. Tony Cheung and Mr. Gary Cheung for our Shares upon completion of the Reorganisation, will together be entitled to exercise and control approximately 75% of our entire issued Share capital upon completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme) and are regarded as a group of Controlling Shareholders for the purposes of the Listing Rules.

OVERVIEW

We are an established HVAC E&M engineering services provider in Hong Kong with a long business history dating back to 1996. We generally focus on servicing new residential property development projects as a first-tier or second-tier subcontractor in Hong Kong. Our HVAC E&M engineering services typically involve installation of HVAC systems, which refers to heat, ventilation and air-conditioning systems.

According to the Frost & Sullivan Report, the overall HVAC engineering and services market in Hong Kong is fragmented with the top five players accounting for around 17.9%, while our Group ranked 11 and accounted for approximately 1.6% of the market share in terms of revenue contribution in 2017. On the other hand, the residential HVAC engineering and services market in Hong Kong is considered a concentrated market with the top five players in 2017 constituting approximately 49.4% of the market share in terms of revenue contribution, in which our group ranked first in 2017 with 12.0% of the market share in terms of revenue contribution.

We are registered as a Registered Electrical Contractor under EMSD, a minor works contractor (company) of Type A (Classes II and III), Type D (Classes II and III) and Type E (Classes II and III) under the Building Authority and a registered subcontractor under the Subcontractor Registration Scheme operated by the Construction Industry Council. For details of the qualifications of our Group, please refer to the paragraph headed “Licences and permits” in this section. For details of our Group’s applicable regulatory requirements in relation to these qualifications, please refer to the section headed “Regulatory Overview” in this prospectus.

We pride ourselves in, and strategise our business around our capability to undertake HVAC E&M engineering works for sizeable residential property development projects, and focus generally on undertaking HVAC E&M engineering projects as a first-tier or second-tier subcontractor. Throughout our long business history, we have completed HVAC E&M engineering works for numerous well-known residential property development projects, and have established business relationships with established property developers, construction and HVAC E&M contractors and well-known distributors of major HVAC brands in Hong Kong. Nevertheless, due in part to the specific landscape of the property development market in Hong Kong (which is relatively dominated by a limited number of prominent property developers, particularly for sizeable new residential property development projects) and in part to our relatively prolonged project duration, during the Track Record Period, our five (or, in the case of FY2015, three) largest customers accounted for approximately 100.0%, 100.0% and 100.0% of our revenue respectively, whereas our largest customer accounted for approximately 45.6%, 40.8% and 40.4% of our revenue respectively. Please refer to the paragraph headed “Customers — Customer concentration” in this section for details of our customer concentration. We have established business relationship with the majority of our five largest customers of the Track Record Period for over 10 years.

During the Track Record Period, we generated all our revenue from the provision of HVAC E&M engineering services for private sector projects, which amounted to approximately HK\$128.0 million, HK\$110.5 million and HK\$125.8 million respectively. We classify private sector projects as projects not being owned or developed by a Government department or a statutory body.

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During the Track Record Period, we had worked on a total of 41 HVAC E&M engineering projects with a total original contract sum of approximately HK\$573.2 million, among which 13 projects had been completed. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have been awarded two new projects with total awarded contract sum of approximately HK\$198.3 million and, as at the Latest Practicable Date, we had 30 projects on hand (including projects in progress as well as projects that have been awarded to us but not yet commenced) with a total original contract sum of approximately HK\$570.8 million, of which approximately HK\$28.5 million, HK\$56.6 million and HK\$101.6 million has been partially recognised as revenue for FY2015, FY2016 and FY2017, respectively. All projects undertaken by us during the Track Record Period and up to the Latest Practicable Date were located in Hong Kong. Further details of our projects are set out in the paragraph headed “Our projects” in this section.

During the Track Record Period, we were generally engaged as a subcontractor to provide HVAC systems installation services which, depending on specific contract requirements, may involve procurement of HVAC systems to be installed by us. The following table sets forth the breakdown of our revenue by types of services during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Installation services only	97,457	76.1	89,790	81.3	87,216	69.3
Installation services with HVAC systems procurement	30,573	23.9	20,677	18.7	38,630	30.7
Total	128,030	100.0	110,467	100.0	125,846	100.0

During the Track Record Period, our suppliers mainly include: (i) suppliers of materials such as HVAC systems and other ancillary consumables such as pipes and fittings; and (ii) subcontractors we engaged to assist us in completing on-site works. We purchase different types of consumable parts and supplies for our HVAC E&M engineering projects and, depending on the specific terms of our HVAC E&M service contracts, may include HVAC systems for installation as part of our contract performance. In line with industry practice, we may further subcontract part of our HVAC E&M engineering works to other subcontractors during our contract performance. During FY2015, FY2016 and FY2017, our five largest suppliers accounted for approximately 64.4%, 63.9% and 49.7% of our total purchases, respectively, where our largest supplier amounted for approximately 20.5%, 26.8% and 20.8% of our total purchases, respectively. We have maintained three to 16 years of business relationship with most of our five largest suppliers of the Track Record Period. Further details of our suppliers are set out in the paragraph headed “Suppliers” in this section below.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors in the Hong Kong HVAC engineering and services market:

Well established presence and proven track record in Hong Kong's residential HVAC engineering and services market

We are an established HVAC E&M engineering services provider with over 20 years of operating history in Hong Kong, and we believe we are among the earliest market players to service whole residential property development projects. Having a general focus of servicing new residential property projects, we ranked 11 and accounted for approximately 1.6% of the market share in terms of revenue contribution in the overall HVAC engineering and services market in Hong Kong in 2017, and ranked first in the HVAC engineering and services market for residential sector in Hong Kong in 2017 with 12.0% market share in terms of revenue contribution according to the Frost & Sullivan Report.

Supported by an experienced and dedicated technical team which includes project directors, project managers, engineers, assistant engineers and foremen, we pride ourselves in our capability to undertake HVAC E&M engineering works for sizeable property development projects, and our ability to offer different types of technical services customised for our projects. Our demonstrated service capacity and quality of work is evidenced by our track record pipeline of well-known residential property development projects such as those situated at or in close proximity to mass transit stations in West Kowloon, Nam Cheong, Tuen Mun, Hung Hom and North Point Harbour. We believe our established market presence and solid track record will continue to serve us well in extending our business reach to other active property developers in Hong Kong, capturing more business opportunities and further consolidating our market share in the HVAC engineering and services segment of the residential property development market in Hong Kong.

Established relationship with major customers, suppliers and subcontractors

Over the years, we have established ourselves as a dedicated subcontractor in the HVAC engineering and services market, consistently achieving customer satisfaction, quality of work and cost control which in turn enable our Group to gain confidence from our customers. As a subcontractor, our direct major customers historically included property developers (or their designated subsidiaries/group companies), their designated main contractors, as well as established HVAC E&M engineering contractors or well-known distributors of major HVAC brands in Hong Kong who are awarded HVAC E&M engineering tenders of property development projects, some of which have had business relationships with us for over 10 years. We believe such established relationship, particularly our direct business relationship with prominent property developers in Hong Kong, is demonstrative of our work quality and our ability to adhere to stringent project management requirements, and helps fortify our market standing and corporate profile which in turn facilitate our further business undertakings.

We consider our success in the HVAC engineering and services market and our quality work are also attributable to our stable relationship with our suppliers and subcontractors, which enables us to secure raw materials supply with consistent quality, timely delivery and competitive pricing from our materials and consumables suppliers on the one hand, and better enforce our work quality

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requirements and progress timeframe with our subcontractors on the other. These attributes in turn facilitate us in completing and delivering high-quality project works for our valued customers while reasonably safeguarding our profit margin.

Experienced and professional management team

Our management team has extensive industry knowledge and project experience in the HVAC engineering and services market in Hong Kong. Mr. Tony Cheung and Mr. Gary Cheung, our founders, executive Directors and Controlling Shareholders, have over 20 years of experience in the HVAC engineering and services market. Their experience and extensive knowledge in this market enable our Group to enjoy in-depth understanding of the local market dynamism and industry practice. According to the Frost & Sullivan Report, shortage of technical staffs including electrical control workers and sheet metal workers etc., especially experienced, senior technicians, is a major problem in the current HVAC engineering and services market in Hong Kong and thus a key competitive element among market players. Our technical team, in particular, Mr. Cheung Ting Fun Andy and Mr. Yip Kam Ming, our project directors who are assisted by a team of experienced project management staff, have over 10 years of experience in the E&M engineering works industry. Our Directors and senior management possess substantial experience, industry insight, technical skills and knowledge and project management experiences to lead and execute high-quality works for sizeable projects with stringent project requirements, which serve as our major competitive edge over other market players, bringing customer satisfaction and reinforcing our market standing for trusted and quality HVAC E&M engineering works. We believe our management team's expertise, industry knowledge and commitment to quality have been and will continue to be our Group's valuable assets and strive our Group towards greater success. For details of the qualifications and experience of our Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

BUSINESS STRATEGIES

Our principal business objective is to further strengthen our market position as a prime HVAC E&M engineering services provider and to become the preferred choice of first-tier HVAC E&M engineering subcontractor for property developers in Hong Kong. To this end, our overall strategy is to further strengthen our financial management and licensing qualifications which we are confident will further secure our positioning in the property development value chain as first-tier HVAC E&M engineering subcontractor, and to acquire new business opportunities directly with property developers and/or their designated main contractors.

Enhance our financial capacity to compete for more HVAC E&M engineering projects and further consolidate our market share

Our ability to undertake more HVAC E&M engineering projects and/or compete for sizeable projects hinges on the level and sufficiency of working capital for our deployment. Financial resources capacity is increasingly important as it is increasingly common in HVAC E&M service contracts to require subcontractors to supply HVAC systems as part of contract performance according to the Frost & Sullivan Report. This in turn imposes substantial working capital requirements particularly for HVAC E&M engineering subcontractors. Working capital availability is also essential for subcontractors to fulfil surety bond requirement in project tendering and undertaking which is a relatively common industry practice. Given the relatively long duration of our contract performance period, having

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sufficient liquidity and financial resources for deployment as and when new business opportunities arise are essential for materialising our planned business expansion and further consolidate our market share. Available financial resources have been a major constraint factor on the number and size of HVAC E&M engineering projects we compete for and undertake. During the Track Record Period, we tended to gear towards tenders that did not require procurement of HVAC systems or posting of surety bonds to better conserve and manage our limited working capital, which regrettably limited our ability to tender projects as first-tier HVAC E&M engineering subcontractors or participate in projects of certain property developers which typically requires HVAC E&M engineering subcontractors to procure HVAC systems.

With the Share Offer and our enhanced capital strength and financial resources, we intend to take a more proactive stance in tendering and competing for more HVAC E&M engineering projects as first-tier HVAC E&M engineering subcontractor, including those that require procurement of HVAC systems and posting of surety bond. We believe this will not only increase our business scale, our profitability (in monetary terms) and our market share, but also help expand our customer base by extending our business reach to more property developers. We also believe enhancing our capital strength and financial capacity will accentuate the trust and confidence of major property developers in awarding sizeable and major HVAC E&M engineering projects to us and put us further ahead of our competitors. In this connection, we plan to use approximately 85.6% of the net proceeds to support the relevant costs to be incurred for the procurement of HVAC systems and approximately 4.5% of the net proceeds to take out surety bonds for our projects. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

Developing and expanding our HVAC E&M engineering services business and increasing our competitiveness in the private sector

We are currently registered as a Registered Electrical Contractor under the EMSD, a minor works contractor (company) of Type A (Classes II and III), Type D (Classes II and III) and Type E (Classes II and III) under the Buildings Authority and a registered subcontractor under the Subcontractor Registration Scheme operated by the Construction Industry Council. These licences have been sufficient in supporting our undertaking of residential HVAC E&M engineering projects which have been our general focus. HVAC E&M engineering works for commercial properties, on the other hand, typically involve ventilation works that require inspection by registered specialist contractor in the ventilation works category under the Buildings Department which we have yet to acquire such qualification at present.

As an established HVAC E&M engineering services provider and having serviced numerous well-known residential property development projects of prominent property developers in Hong Kong, in recent years we are increasingly being inquired into the provision of HVAC E&M engineering services for the commercial components of their property development projects. In the past, we occasionally undertook projects involving ventilation works that required a registered specialist contractor and which we had to subcontract this part of work to those subcontractors with such register. In order to expand our service capacity to capture such business opportunities and provide our customers with more comprehensive HVAC E&M engineering services, we intend to expand our professional talent pool by employing chartered engineers with relevant experience in the speciality of ventilation works, assistant engineers, foreman, draftsman and quantity surveyor in the forthcoming two to three years’ time (depending on the pace of our business growth) to fulfil the application requirements for, and to acquire

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the qualification as registered specialist contractor in the ventilation works category under the Buildings Department. These intended additional hires are also expected to help address our demand in manpower and expertise as we strive to undertake more HVAC E&M engineering projects of larger scale as first-tier HVAC E&M subcontractor and expand our business. Aside from our planned external hiring, as a means of facilitating our business expansion goal through internal advancements, we have already arranged two of our employees to attend the “preparatory course to become a registered specialist contractor in the ventilation works category” in early 2017, which is specifically designed to give professional training to workers who would like to become a technical director or authorised signatory of a registered specialist contractor in the ventilation works. Subject to satisfactory progress, we plan to assist these two employees to submit application for assessment in or around mid 2018.

Adhere to prudent financial management to ensure sustainable growth and capital sufficiency

Notwithstanding our goal to expand our service capacity in order to compete for and undertake more projects, we endeavour to continue adhering to a prudent financial management strategy through regular updates and review of our receivables collection status, project progress and expenditures, working capital planning and financial projections, to ensure we maintain at all material times a reasonable level of working capital buffer to support our general operations, funding obligations and capital commitments, as well as to facilitate efficient and timely management decisions on tendering and undertaking new business opportunities as they arise. We believe our continuous commitment to a prudent financial management strategy will help us uphold a balanced approach towards pursuing long-term, healthy business growth, and bring about stable return to our shareholders.

We are confident that the above business and management strategies will enable us to enhance our overall business efficiency and financial health, advance our positioning in the property development value chain, expand our business scale and service coverage, extend our business reach to a broader customer base, further solidify our market standing and increase our market share.

For further details on the implementation of the above-mentioned business strategies, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

OUR SERVICES

HVAC E&M engineering services is our core business and it typically involves installation of HVAC systems, which refers to heat, ventilating and air-conditioning systems.

An HVAC system mainly covers the following functions:

- Heating system: generating heat for the building/spaces by heating/thermo ventilating system
- Ventilating system: exchanging or replacing air in any space to provide high indoor air quality
- Air-conditioning system: controlling and maintaining the temperature and humidity of air within buildings/spaces

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We generally focus on servicing new residential property development projects in Hong Kong, and generally undertake HVAC E&M engineering projects either as first-tier subcontractor, or as second-tier subcontractor. First-tier subcontractor refers to a subcontractor which directly participates in tender invitation of a property developer or its designated HVAC main contractor. Second-tier subcontractor refers to a subcontractor which undertakes projects from a first-tier subcontractor. Our role as a first-tier subcontractor includes overall project management and supervision of HVAC E&M engineering works conducted by us and/or our subcontractors to ensure their conformity to contractual specifications and requirements of our customers (generally property developers or their designated main contractors). As a second-tier subcontractor, we execute HVAC E&M engineering works through our workers and subcontractors, subject to overall supervision of the first-tier subcontractor which in such case would be our direct customer. The following table sets forth the breakdown of our Group's revenue by our role as first-tier subcontractor and second-/lower-tier subcontractor during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
First-tier subcontractor	46,443	36.3	22,519	20.4	40,298	32.0
Second-/lower-tier subcontractor	<u>81,587</u>	<u>63.7</u>	<u>87,948</u>	<u>79.6</u>	<u>85,548</u>	<u>68.0</u>
Total	<u><u>128,030</u></u>	<u><u>100.0</u></u>	<u><u>110,467</u></u>	<u><u>100.0</u></u>	<u><u>125,846</u></u>	<u><u>100.0</u></u>

The following table sets forth certain differences between our role as first-tier subcontractor and second-tier subcontractor:

	First-tier subcontractor	Second-tier subcontractor
<i>Source of projects and direct customer:</i>	We secure projects directly from property developers or their main contractors typically through tender by invitation.	We secure projects from first-tier subcontractors generally through tender by invitation or direct quotation.
<i>Project execution:</i>	We are responsible for overall project management and supervision of HVAC E&M engineering works conducted by us and/or our subcontractors to ensure their conformity to contractual specifications and requirements of the property developers or their main contractors, to which we are accountable in respect of the whole HVAC E&M engineering aspect of the residential property project.	We execute HVAC E&M engineering works through our workers and subcontractors, subject to overall supervision of the first-tier subcontractor. We are accountable to the first-tier subcontractor in respect of the quality of the HVAC E&M engineering works subcontracted to us.

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First-tier subcontractor

Second-tier subcontractor

Contract sum:

The contract sum of a project awarded by a property developer or its main contractor to a first-tier HVAC E&M subcontractor typically represents the entire HVAC E&M engineering contract works of a project, and as a first-tier subcontractor, it may choose to subcontract part of the related contract works to one or more second-tier subcontractors, and would typically retain a certain level of profit margin for its own entitlement. In this context, a first-tier subcontractor would typically enjoy a larger contract sum than its lower-tier subcontractors who are subordinate to the first-tier subcontractor in a given HVAC E&M engineering project.

By the same token, since a second-tier HVAC E&M subcontractor typically undertakes contract works that are subcontracted from the first-tier subcontractor, the contract sum involved would typically be smaller than the whole contract sum awarded to the first-tier subcontractor for reason that the first-tier subcontractor may choose to subcontract only part of its awarded contract works out and may choose to have multiple second-tier subcontractors sharing the subcontracted works, and typically retain a certain level of profit margin for its own entitlement.

Scope of service:

During the Track Record Period, a majority of the projects awarded to us as a first-tier subcontractor required us to provide both installation and HVAC systems procurement services.

During the Track Record Period, all of the projects awarded to us as a second-tier subcontractor required us to provide installation services only.

Working capital requirements:

Working capital requirements for projects where we act as a first-tier HVAC E&M subcontractor are generally more substantial as they are more commonly associated with contract requirement on HVAC systems procurement.

Given projects where we act as second-tier subcontractor under the first-tier HVAC E&M subcontractor typically do not involve HVAC systems procurement on our part and we are required under contract to provide installation services only, the associated working capital requirements are relatively less substantial.

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First-tier subcontractor

Second-tier subcontractor

Regulatory requirements:

As advised by our Legal Counsel, on a legal and regulatory standpoint, (i) there is no difference in the licences and permits that should be obtained by a first-tier subcontractor and a second-tier subcontractor; and (ii) a first-tier subcontractor is not subject to any minimum working capital, specific qualification and licensing requirements to be qualified as a first-tier subcontractor.

We believe striving to become a first-tier HVAC E&M engineering subcontractor will serve to advance our position in the HVAC E&M engineering value chain, provide us with more control and autonomy in seeking new business opportunities, facilitate us to secure larger contract sums and revenue, capture more market share and further fortify our market position and competitive advantage. Moreover, as a first-tier subcontractor, our direct customers will generally be property developers or their designated main contractors which are generally more established (including financially), and in turn will serve to lessen our credit risk and exposure. We believe having direct business exposure with property developers will also enhance our customer profile and convey a positive message to the market on our strength and capability.

Service coverage: “installation only” and “procurement and installation”

During the Track Record Period, we were generally engaged as a subcontractor to provide HVAC systems installation services, which, depending on specific contract requirements, may involve procurement of HVAC systems to be installed by us. For projects that require our installation services only and do not require HVAC systems procurement, our customers will provide us with the HVAC systems to be installed. For projects that requires both our installation and HVAC systems procurement services, we are required to procure the HVAC systems to be installed by us in accordance with the technical specifications of our customers, and the cost of which will be included as part of the corresponding contract sum. The following table sets forth the breakdown of our Group’s revenue by types of services during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Installation services only	97,457	76.1	89,790	81.3	87,216	69.3
Installation services with HVAC systems procurement	<u>30,573</u>	<u>23.9</u>	<u>20,677</u>	<u>18.7</u>	<u>38,630</u>	<u>30.7</u>
Total	<u><u>128,030</u></u>	<u><u>100.0</u></u>	<u><u>110,467</u></u>	<u><u>100.0</u></u>	<u><u>125,846</u></u>	<u><u>100.0</u></u>

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Our projects involving both installation services and HVAC systems procurement generally provide for a lower gross profit margin than those involving installation services only, as we generally provide for a lesser profit margin on HVAC systems procurement. On the other hand, projects involving both installation services and HVAC systems procurement are typically associated with larger contract sum and are more typically awarded to first-tier HVAC E&M engineering subcontractors. Given our strategy to become a prime, first-tier HVAC E&M engineering subcontractor for property developers in Hong Kong, we envisage that we will be undertaking more projects involving HVAC systems procurement going forward, which will increase our working capital requirements and may result in a negative impact on our overall gross and net profit margin. Nevertheless, we believe the larger contract sum (thus revenue) associated with projects involving both installation services and HVAC systems procurement coupled with other positive attributes associated with acting as first-tier subcontractor will serve to counter the negative impact on our overall profit margin and facilitate us in achieving growth on our overall profitability (in monetary terms). For details please refer to the paragraphs headed “Business — Business strategies” and “Future plans and use of proceeds — Reasons for the Share Offer and the Listing” in this prospectus.

Seasonality

As our HVAC E&M engineering services generally involve outdoor installation work, our work progress may be obstructed or delayed due to adverse weather conditions. Save for the aforesaid, the Directors believe that the industry in which our Group operates does not exhibit significant seasonality.

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OUR PROJECTS

Set out below is a table showing the number of projects completed and awarded to us and the aggregate contract sum during the Track Record Period and as at the Latest Practicable Date:

	Number of projects	Contract sum^(Note 1) HK\$'000
<i>As at 1 January 2015</i>		
Projects on hand	9	177,887
<i>FY2015</i>		
Projects completed ^(Note 2)	3	29,663
New projects awarded ^(Note 3)	10	129,374
<i>As at 31 December 2015</i>		
On-going projects	16	277,598
<i>FY2016</i>		
Projects completed ^(Note 2)	2	65,812
New projects awarded ^(Note 3)	12	138,204
<i>As at 31 December 2016</i>		
Projects on hand	26	349,990
<i>FY2017</i>		
Projects completed ^(Note 2)	8	105,148
New projects awarded ^(Note 3)	10	127,713
<i>As at 31 December 2017</i>		
Projects on hand	28	372,555
<i>For the period between 1 January 2018 and up to the Latest Practicable Date</i>		
Projects completed ^(Note 2)	—	—
New projects awarded ^(Note 3)	2	198,280
<i>As at the Latest Practicable Date</i>		
Projects on hand	30	570,835

Notes:

1. Contract sum represents the original project sum as agreed between the parties and excludes any subsequent additions or modifications arising from variation orders or contract price adjustments, and as such the final revenue recognised from a project may differ from the original contract sum.
2. Number of completed projects means the number of contracts which are considered practically completed when a practical completion certificate is issued by the architect of the overall construction project.
3. Number of new projects awarded means the number of new projects awarded to us during the relevant year or period indicated as evidenced by letter of acceptance or letter of award, and include projects tendered in the preceding year which are awarded in the relevant year or period.

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Completed projects

Prior to the Track Record Period, we completed 10 projects with outstanding revenue recognised during the Track Record Period, having a total contract sum of approximately HK\$134.0 million. During the Track Record Period and up to the Latest Practicable Date, we completed 13 projects with a total contract sum of approximately HK\$200.6 million. The following table sets out a list of our projects completed (i) during the Track Record Period and (ii) prior to the Track Record Period with outstanding revenue recognised during the Track Record Period:

Project code	Customer	Location of the project	Service coverage	Date of award	Date of practical completion ^(Note 1)	Contract sum ^(Note 2) HK\$'000	Revenue recognised during the Track Record Period ^(Note 3) HK\$'000
MT7	Alpha Appliances Ltd. ("Alpha Appliances") (referred to as Customer B in the Accountants' Report set out in Appendix I to this prospectus)	Tsing Luk Street, Tsing Yi	Installation only	January 2013	April 2015	12,300	FY2015: 1,426 FY2016: 2 FY2017: 1,084
MT8	Alpha Appliances	Tung Chung, N.T.	Installation only	July 2012	February 2016	29,392	FY2015: 3,786 FY2016: 1,516 FY2017: 4,120
MT9	Alpha Appliances	Yuen Long, N.T.	Installation only	August 2012	June 2017	28,630	FY2015: 16,687 FY2016: 4,485 FY2017: 1,866
MT11	Customer B	South Lane, Sai Wan	Procurement and installation	December 2013	December 2015	7,130	FY2015: 3,514 FY2016: 449 FY2017: (83)
MT12	Customer B	Dragon Road, North Point	Procurement and installation	April 2014	April 2016	36,420	FY2015: 23,956 FY2016: 5,064 FY2017: 1,371
MT13	Alpha Appliances	Tanner Road, North Point	Installation only	August 2013	December 2015	10,233	FY2015: 3,244 FY2016: 81 FY2017: 1,371
MT15	Alpha Appliances	Tong Yip Street, Tseung Kwan O	Installation only	September 2013	February 2017	21,926	FY2015: 5,350 FY2016: 14,503 FY2017: 2,073
MT16	Customer B ^(Note 4)	Sai Yee Street and Fa Yuen Street, Mongkok	Procurement and installation	November 2014	March 2017	12,484	FY2015: 3,006 FY2016: 7,671 FY2017: 1,536
MT17	Customer B ^(Note 4)	Des Voeux Road West, Sai Ying Pun	Procurement and installation	July 2015	July 2017	8,399	FY2015: 97 FY2016: 6,152 FY2017: 2,151

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Project code	Customer	Location of the project	Service coverage	Date of award	Date of practical completion ^(Note 1)	Contract sum ^(Note 2)	Revenue recognised during the Track Record Period ^(Note 3)		
							HK\$'000	HK\$'000	
STP14001-1	Liik Kai Engineering Company Limited ("Liik Kai") in the Accountants' Report set out in Appendix I to this prospectus	Tung Chung, N.T.	Installation only	August 2015	February 2017	22,519	FY2015: 18,641 FY2016: 1,710 FY2017: 3,200		
STP14001-2	Liik Kai	Tung Chung, N.T.	Installation only	August 2015	February 2017	398	FY2015: 398 FY2016: — FY2017: —		
STP14002	Liik Kai	Yeung Long N.T.	Installation only	August 2015	June 2017	2,493	FY2015: 863 FY2016: 1,010 FY2017: 329		
STP15001	Liik Kai	Tak Yip Street, Yuen Long	Installation only	December 2015	July 2017	8,300	FY2015: 858 FY2016: 6,662 FY2017: 1,303		
10 projects completed prior to the Track Record Period with outstanding revenue recognised ^(Note 5)							133,978	FY2015: 17,657 FY2016: 4,532 FY2017: 3,967	
Total:						334,601	FY2015: 99,482 FY2016: 53,837 FY2017: 24,286		

Notes:

1. Date of practical completion refers to the date as stated in the practical completion certificate issued by the architect of the overall construction project.
2. Contract sum represents the original contract sum as agreed between the parties and excludes any subsequent additions or modifications arising from variation orders or contract price adjustments, and as such the final revenue recognised from a project may differ from the original contract sum.
3. Revenue recognised includes those arising from variation orders as certified by customers. For details of variations orders, please refer to the paragraph headed "Operational workflow — Implementation phase — Variation orders" in this section.
4. For certain of our projects for Customer B, we were instructed by Customer B to enter into the relevant contact with an independent third party contractor acting jointly with Customer B as joint management contractors, of which Customer B remained as our primary reporting contractor (including, without limitation, certification of our work progress and stage payments) and payor of our fees.
5. Revenue was recognised after issuance of the practical completion certificate and was mainly arising from variation orders and revenue attributable to defect liability period.

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Projects on hand

As at the Latest Practicable Date, we had a total of 30 projects on hand (including projects in progress and projects that have been awarded to us but not yet commenced). The following table sets out a list of our projects on hand as at the Latest Practicable Date:

Project Code	Customer	Location of the project	Service coverage	Date of award	Expected date of practical completion (Note 1)	Contract sum (Note 2)	Revenue recognised during the Track		Estimated revenue to be recognised going forward (Note 4)
							Record Period (Note 3)	Record Period (Note 3)	
						HK\$'000	HK\$'000	HK\$'000	
MT10	Alpha Appliances	Sha Po, Kam Tin, Yuen Long	Installation only	December 2013	August 2018	19,373	FY2015: 10,936 FY2016: 982 FY2017: 393	FY2018: — FY2019: —	
MT14	Alpha Appliances	Sha Po, Kam Tin, Yuen Long	Installation only	March 2015	May 2018	42,126	FY2015: 16,088 FY2016: 23,113 FY2017: 9,667	FY2018: 421 FY2019: —	
MT18	Customer B (Note 5)	Heung Sze Wui Road, Tuen Mun	Procurement and installation	September 2016	May 2018	10,700	FY2015: — FY2016: 498 FY2017: 6,722	FY2018: 1,677 FY2019: 1,803	
MT19	Customer B	Tong Yan San Tsuen, Yuen Long, N.T.	Procurement and installation	March 2017	January 2019	14,660	FY2015: — FY2016: — FY2017: 3,002	FY2018: 10,696 FY2019: 229	
MT21	Customer G	Tuen Mun Town, New Territories	Procurement and installation	December 2017	November 2020	18,800	FY2015: — FY2016: — FY2017: —	FY2018: 5,996 FY2019: 10,571	
MTW2	Customer D	Oil Street, North Point	Procurement and installation	June 2016	July 2018	32,413	FY2015: — FY2016: 544 FY2017: 15,234	FY2018: 14,994 FY2019: 1,640	
MTW3	Wing Shing Air-conditioning Engineering Ltd. (“Wing Shing”) (referred to as Customer E in the Accountants’ Report set out in Appendix I to this prospectus)	Lohas Park Phase 6, Tseung Kwan O	Installation only	March 2017	March 2019	23,035	FY2015: — FY2016: — FY2017: 2,573	FY2018: 17,302 FY2019: 3,160	
MTW4	Wing Shing	East Kai Tak, San Po Kong	Installation only	September 2016	October 2018	16,429	FY2015: — FY2016: —	FY2018: 7,903 FY2019: —	
MTW5	Wing Shing	Chai Wan Road, Chai Wan	Installation only	September 2016	August 2018	2,600	FY2017: 8,526 FY2015: — FY2016: — FY2017: 2,631	FY2018: 206 FY2019: —	

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Project Code	Customer	Location of the project	Service coverage	Date of award	Expected date of practical completion (Note 1)	Contract sum (Note 2)	Revenue	
							recognised during the Track Record Period (Note 3)	Estimated revenue to be recognised going forward (Note 4)
						HK\$'000	HK\$'000	HK\$'000
ST0048	Customers B ^(Note 5)	Tai Wai, Shatin, N.T.	Procurement and installation	January 2018	May 2020	189,900	FY2015: — FY2016: — FY2017: —	FY2018: 16,136 FY2019: 107,787
STP15002	Lik Kai	Lai Ping Road, Shatin, N.T.	Installation only	December 2015	May 2018	9,180	FY2015: 546 FY2016: 7,603	FY2018: 92 FY2019: —
STP15003	Lik Kai	Java Road and Tin Chiu Street, North Point	Installation only	December 2015	May 2018	10,680	FY2017: 938 FY2015: 743 FY2016: 9,572	FY2018: 107 FY2019: —
STP15004	Lik Kai	West Rail Nam Cheong Station	Installation only	December 2015	June 2018	22,100	FY2017: 853 FY2015: 147 FY2016: 11,392	FY2018: 10 FY2019: 221
STP15006	Lik Kai	Babinton Path, Mid-levels	Installation only	May 2015	June 2018	3,180	FY2015: 87 FY2016: 1,562 FY2017: 1,637	FY2018: 162 FY2019: —
STP16001	Customer B ^(Note 5)	Sai Yuen Lane, Hong Kong	Procurement and installation	February 2016	September 2018	12,880	FY2015: — FY2016: 299 FY2017: 8,698	FY2018: 3,398 FY2019: —
STP16002	Lik Kai	Factory Street and Shau Kei Wan Road	Installation only	April 2016	November 2018	16,800	FY2015: — FY2016: 1,051 FY2017: 11,181	FY2018: 4,568 FY2019: —
STP16003	Lik Kai	West Rail Nam Cheong Station	Installation only	August 2016	July 2019	3,069	FY2015: — FY2016: — FY2017: 1,338	FY2018: 1,575 FY2019: —
STP16004	Lik Kai	Factory Street and Shau Kei Wan Road	Installation only	August 2016	November 2018	598	FY2015: — FY2016: —	FY2018: 565 FY2019: —
STP16005	Lik Kai	Java Road and Tin Chiu Street, North Point	Installation only	May 2016	May 2018	333	FY2017: 33 FY2015: — FY2016: —	FY2018: — FY2019: —
STP16006	Lik Kai	West Rail Nam Cheong Station	Installation only	July 2016	May 2018	2,530	FY2017: 333 FY2015: — FY2016: —	FY2018: 687 FY2019: —
STP16007	Lik Kai	West Rail Nam Cheong Station	Installation only	December 2016	December 2019	25,192	FY2017: 1,817 FY2015: — FY2016: —	FY2018: 16,384 FY2019: 2,325
							FY2017: 6,211	

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Project Code	Customer	Location of the project	Service coverage	Date of award	Expected date of practical completion (Note 1)	Contract sum (Note 2) HK\$'000	Revenue recognised during the Track Record Period (Note 3) HK\$'000	Estimated revenue to be recognised going forward (Note 4) HK\$'000
STP16008	Lik Kai	Yiu Sha Road, Whitehead, Ma On Shan, Sha Tin	Installation only	May 2017	November 2018	11,488	FY2015: — FY2016: —	FY2018: 7,045 FY2019: —
STP17001	Lik Kai	Yiu Sha Road, Whitehead, Ma On Shan, Sha Tin	Installation only	May 2017	November 2018	7,236	FY2017: 4,329 FY2015: — FY2016: —	FY2018: 4,008 FY2019: —
STP17002	Lik Kai	Yiu Sha Road, Whitehead, Ma On Shan, Sha Tin	Installation only	May 2017	November 2018	1,718	FY2017: 3,156 FY2015: — FY2016: —	FY2018: 1,700 FY2019: —
STP17003	Lik Kai	Tuen Mun, N.T.	Installation only	July 2017	June 2020	13,080	FY2017: 1 FY2015: — FY2016: —	FY2018: 2,469 FY2019: 10,156
STP17004-1	Lik Kai	Stubbs Road, Wanchai	Installation only	June 2017	September 2018	6,890	FY2017: negligible FY2015: — FY2016: 12	FY2018: 6,532 FY2019: 69
STP17004-2	Lik Kai	Stubbs Road, Wanchai	Installation only	June 2017	September 2018	5,118	FY2017: 277 FY2015: — FY2016: —	FY2018: 5,067 FY2019: 51
STP17007	Lik Kai	Java Road and Tin Chiu Street, North Point	Installation only	August 2017	July 2019	8,068	FY2017: — FY2015: — FY2016: —	FY2018: 5,901 FY2019: 1,593
STP17008	Lik Kai	Pak Shek Kok, Tai Po	Installation only	October 2017	June 2019	32,280	FY2017: 472 FY2015: — FY2016: 1	FY2018: 30,855 FY2019: 922
STP18001	Lik Kai	Shek Mun, Shaatin, N.T.	Installation only	February 2018	June 2022	8,380	FY2017: 178 FY2015: — FY2016: —	FY2018: 860 FY2019: 6,358
Total:						570,835	FY2015: 28,547 FY2016: 56,629 FY2017: 101,560	FY2018: 167,316 FY2019: 146,885

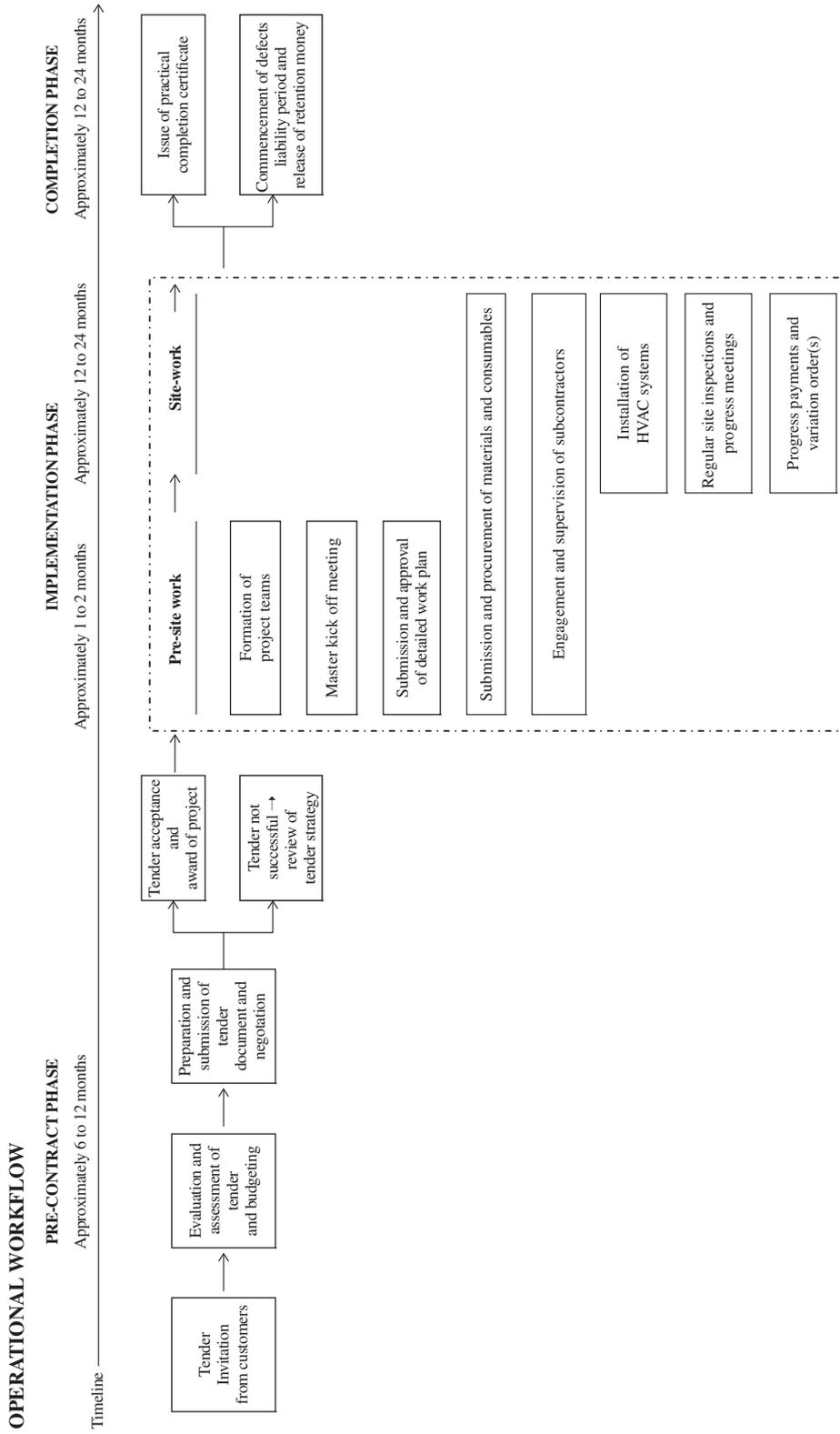
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Notes:

1. The expected date of practical completion for a particular project is provided based on our management's best estimation taking into account factors including (without limitation) the expected completion date specified in the relevant contract (if any), the percentage of work performed as certified by our customers and our project progress monitoring schedule.
2. Contract sum represents the original contract sum as agreed between the parties and excludes any additions or modifications arising from variation orders or contract price adjustments, and as such the final revenue recognised from a project may differ from the original contract sum.
3. Revenue recognised includes those arising from variation orders as certified by customers. For details of variation orders, please refer to the paragraph headed "Operational workflow — Implementation phase — Variation orders" in this section.
4. Revenue to be recognised going forward is estimated with reference to, among other things, the contract sum and the aggregate revenue recognised prior to and during the Track Record Period and excludes any additions or modifications that may arise from variation orders or contract price adjustments.
5. For certain of our projects for Customer B, we were instructed by Customer B to enter into the relevant contract with an independent third party contractor acting jointly with Customer B as joint management contractors, of which Customer B remained as our primary reporting contractor (including, without limitation, certification of our work progress and stage payments) and payor of our fees.

OPERATIONAL WORKFLOW

The following diagram depicts an outline of our HVAC E&M engineering operational workflow:



Note: Timeframe stipulated above are generalisations and may vary for different projects depending on various factors such as terms of contract, nature of works to be performed, presence of variation orders, our agreement with customers on overall project timeframe as well as other unforeseeable circumstances.

Pre-contract phase

Tender invitation from customers

A vast majority of our projects are awarded through tender. We may be invited through invitation letters, phone calls or emails from our customers to submit tender for a potential project as a subcontractor. Our customers are generally property developers (or their designated subsidiaries/group companies), their designated main contractors or the first-tier HVAC E&M engineering subcontractors of property development projects, while we in turn may undertake HVAC E&M engineering projects either as a first-tier subcontractor or as a second-tier subcontractor. Once we have confirmed our interest in submitting a tender, the potential customer will send us a tender invitation letter setting out, among other things, the relevant project information, the estimated project size and the required project commencement and completion date to facilitate our tender analysis and preparation.

Evaluation and assessment of tender and budgeting

After receiving the tender invitation, our tender team will conduct a preliminary assessment based on the tender information and requirements provided to evaluate, amongst others, the potential profitability of the project, the feasibility of undertaking such project with reference to technical specifications, our expertise and capacity, our available manpower and working capital resources, the estimated cost of labours and materials, the project schedule, quality expectation, preliminary safety and environmental risk analysis, accessibility to the work sites and other possible risk factors associated with such project.

To facilitate our assessment, we may obtain preliminary quotations for subcontracting works, materials and consumables (particularly on HVAC systems where it is required under the tender specification that the successful bidder is required to procure as part of contract performance) from potential subcontractors and suppliers to facilitate a better estimate on project costs, and may conduct on-site inspection to gain a better understanding of the conditions of the site if necessary. The results of our preliminary assessment will be put forth for our tender team and reviewed by our project directors to consider if the potential project warrants further pursuit and proceed with tender preparation.

Initial project planning will also be done during the course of evaluation and assessment of a potential project. Our project directors are responsible for preparing an overall project budget detailing our estimates on all major costs of a project which, if we are subsequently awarded the project, will be reviewed and analysed against our actual expenses incurred on a quarterly basis and updated as necessary throughout our project implementation, as a means of assessing the project's overall profitability on an ongoing basis and for better project management and monitoring.

Preparation and submission of tender document and negotiation

Once a potential project is agreed to proceed further, our project director is responsible for preparing a tender according to the specific requirements of the tender invitation. Our tender is typically prepared based on, among other things, our assessment on the scope and scale of the project, the time and complexity of the works involved and our manpower availability, and generally include information such as our estimations of the E&M engineering and ancillary works involved, duration of our work, manpower requirement, materials costing (including, where applicable and as requested, costs of HVAC

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systems for alternative brands), and our overall tender quotation. Our tender is reviewed and approved by our executive Directors before submission to the relevant customer, which will be further negotiated with our customer.

Tender acceptance and award of projects

The tender selection and award process of our customers may take about six to 12 months, during such time our customers may, by way of interview or enquiries, clarify with us (as with other tenderers) the particulars set out in our tender documents as part of their evaluation and selection process against the tenders received. If our customer decides to accept our tender and award the project to us, we will be informed of its acceptance of our tender by a letter of acceptance or letter of award. Thereafter, a formal contract setting out the terms and conditions of our engagement including, among others, the contract period, scope of work, contract price and payment terms will be finalised and entered into between our customer and us. For the principal terms of our engagement in a typical contract, please refer to the paragraph headed “Customers — Major terms of engagement with our customers” in this section below.

Our tender success rate

The following table summarises our overall tender success rate during the Track Record Period:

	FY2015	FY2016	FY2017
Number of tender invitations received	14	16	15
Number of tenders submitted	13	15	15
Number of tenders awarded	9	13	6
Success rate (%) ^(Note)	69.0	87.0	40.0

Note: Tender success rate for a given financial year or period indicated is calculated as the percentage rate in which tenders submitted for a given financial year or period indicated is subsequently being awarded projects.

Our overall tender success rate for each of FY2015, FY2016 and FY2017 was 69.0%, 87.0% and 40.0% respectively. The relatively lower tender success rate in FY2017 was mainly because we submitted two new tenders in the second half of 2017 of which the tender results have not been confirmed as at the Latest Practicable Date, and accordingly have weighted down the tender success rate for FY2017. In addition, our strategy to expand our customer base by participating in more competitive tenders, including those involving new customers and those we have less confidence in succeeding, may impact our tender success rate going forward. Please refer to the paragraph headed “Risk Factors — Our revenue is mainly derived from HVAC E&M engineering projects which are non-recurrent in nature and any failure of our Group to secure tender contracts would affect our operations and financial results” in this prospectus for further details.

If a tender is not successful, our Directors will discuss with our project directors to review our tender strategy for future reference.

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Alternative means of procuring contracts

Other than tender invitations, our customers may from time to time approach us directly and request for quotations on potential project engagements without a competitive tendering process. During the Track Record Period, we have five projects secured through quotation request. For FY2015, FY2016 and FY2017, our revenue recognised from projects secured through quotation amounted to nil, nil and approximately HK\$13.9 million, representing nil, nil and approximately 11.0% of our total revenue respectively.

Implementation phase

Given that the bulk of our project implementation work, particularly in relation to site-work, typically commences at the later stage of the overall construction project and only after the main structures of the buildings involved are in place, there may be a time-gap between us being awarded a project and commencement of substantive execution work for such project. The duration of which may vary depending on the master program of the overall construction project and the timing of our project execution. We generally utilise this time period for preparation work such as forming a project team, preparing our work plan, fine-tuning our budget, and making arrangements with our subcontractors and suppliers on sourcing of materials and consumables. Procurement of materials and engagement of subcontractors will generally be done in stages in accordance with the master program and our work plan schedules.

Formation of project team

A project team will be formed once we have been awarded a project. Depending on the scale and complexity of the project, our project team generally comprises:

Team composition:	Responsibility:
Project director	<ul style="list-style-type: none">— Overall management and liaison with customers on an ongoing basis— Report to executive Directors on project progress— Site visit and inspection— Preparation of payment applications— Monitor project progress against the corresponding master program to ensure work schedule is under control
Project engineer	<ul style="list-style-type: none">— Preparation of daily record on the number of workers at site and description of their works and report to project director— Preparation of progress report
Foremen	<ul style="list-style-type: none">— Monitor quality of work and job performance carried out by our workers or subcontractors— Liaise with the safety officer of the main contractor in the event of accident

Master kick off meeting

Our customer will typically co-ordinate a master kick-off meeting and issue a master programme setting out the implementation plan for the whole construction project including (without limitation) the various stages of project execution, their respective scheduled duration and the project's progress milestones in which our part of the HVAC E&M engineering services is included.

Submission and approval of detailed work plan

Based on the requirements from our customers and the master programme of each project, we generally prepare a HVAC systems installation program for our customer's, approval and, where applicable, our customer may further submit the HVAC systems installation program to the property developer and/or its designated main contractor for review.

Submission and procurement of materials and consumables

We typically purchase consumables such as PVC cable, ACR copper tubes and fittings, waterproof glue and insulation tube etc. used in our installation work and, depending on specific contract terms, we may also purchase HVAC systems (such as air-conditioners and thermo ventilators) for installation as part of our contract performance.

We generally place orders for materials and consumables used in our projects according to our work plan and schedules, and our foremen are responsible for the overall scheduling of orders and deliveries to better manage the timeliness of such deliveries with their actual installation and application schedules.

Engagement and supervision of subcontractors

Depending on the scale of a project, the specific technicalities required, the required completion timeframe and our manpower availability, we may engage subcontractors to assist us in completing on-site works of a project. We maintain an approved list of subcontractors which is updated as needed based on our performance review of these subcontractors from time to time. Please refer to the paragraph headed "Subcontractors" in this section below for details of our arrangements with these subcontractors.

Installation of HVAC systems

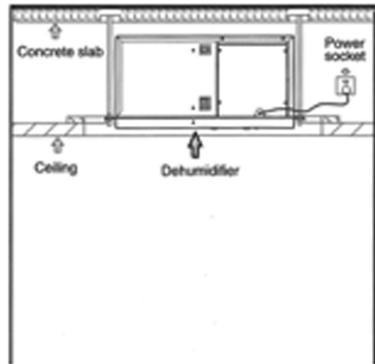
The following sets out a brief description of our on-site installation work for each of the different functional types of HVAC systems:

Installation of thermo ventilator

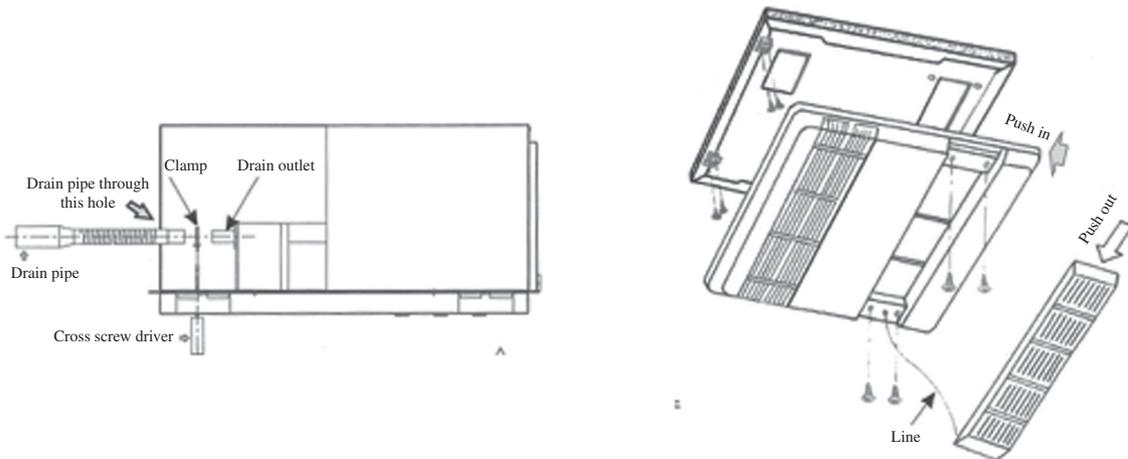
For installation of thermo ventilator, we would first measure and mark the installation location in accordance with the design layout. We would then drill in anchor and fix the hanger rod into the anchor bolt for supporting the thermal ventilator under slab. After that, we would mount the thermal ventilator on the hanger rod and temporarily fix it with bolts and nuts. Any adjustment to the height of the thermal

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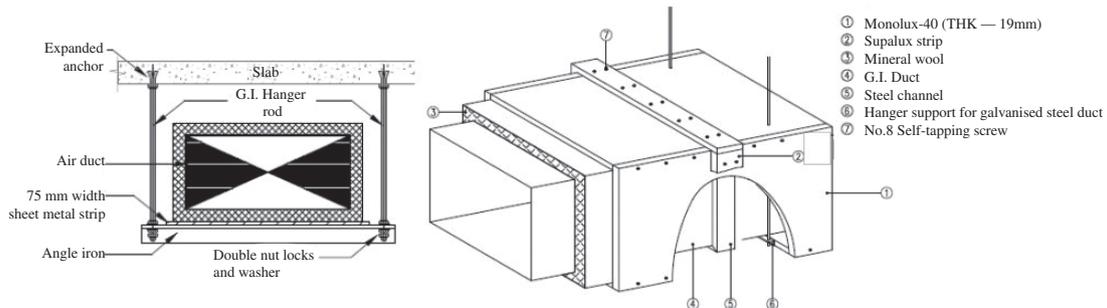
ventilator could be made before securing the lock nuts on the four locking leg. Thereafter, we would connect the built-in power cable to the nearby fuse spur or power socket. If there is electricity connection, we would switch on the thermo ventilator and test the functioning of the unit.



After testing the thermo ventilator, we would install a drainage pipe to the drainage hole of the thermal ventilator. Then pipe clamp would be installed to the drainage pipe to connect the drainage pipe of the thermal ventilator with the drainage point. Lastly, we would install the face plate to the fixing bar or fixing hook of the thermal ventilator and check all the functions of the thermal ventilator.



Installation of ventilating system



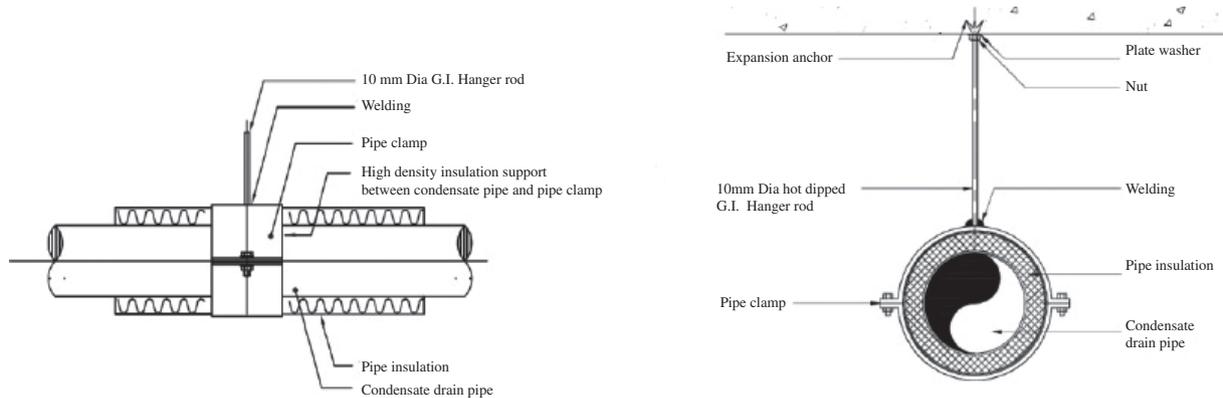
We would first conduct ductwork measurement to facilitate ordering of the appropriate ductwork and fittings. The pre-fabricated and assembled ductwork and fittings will then be transported to the site. For ductwork passing through fire rated walls, fire dampers of appropriate type shall be used or protected by fire enclosure. Silencers, fire dampers, balancing dampers and other plant items would be

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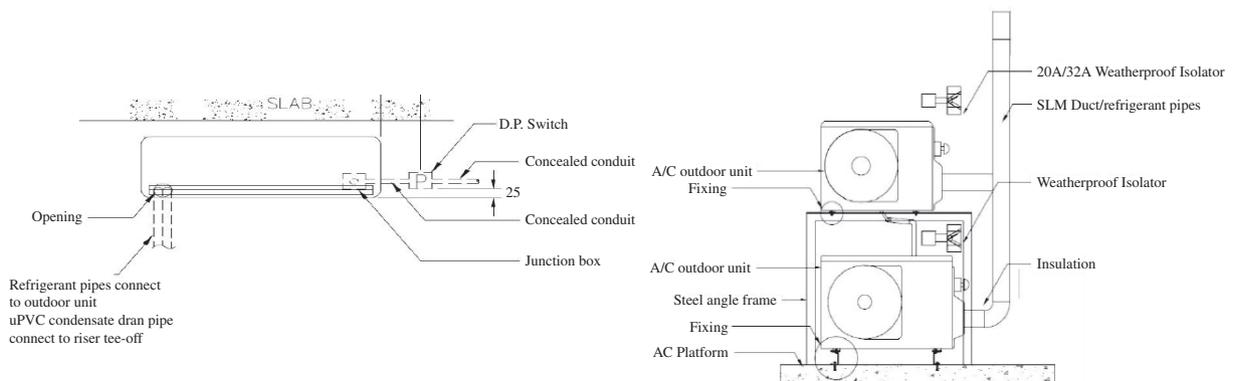
installed according to the approved drawings. Splitter vanes at each branch duct would be adjusted to balance the air flow and the final flow measurement would be carried out at later stage by adjustment of volume control damper at the air grilles location.

Upon completion of the installation of ventilating system, we will engage a qualified registered specialist contractor in the ventilation works category to certify the installation works.

Installation of air-conditioners



Installation of air-conditioner involves a series of tasks to be performed including refrigerant pipe installation, condensate drain pipe installation and refrigerant pipe connection. In refrigerant pipe installation, we would drill in anchor and temporarily secure all necessary refrigerant pipe support on wall or slab with screws in accordance with the design layout and specification requirement. Control wiring installation involves preparing sufficient numbers and length of control wire, connecting wiring from the indoor unit to the outdoor unit through concealed or exposed conduit system with lead-in wire, and temporarily retain the wire in a wire retainer and protected by plastic bag until the indoor unit and the outdoor unit are installed for wiring connection if necessary. After that, we would install condensate drain pipe to ensure all condensate drain pipe are installed with connection point next to the air conditioning unit and all condensate drain pipe are installed and connected to the drain point. Thereafter, pipework and performance test would be conducted to confirm air-conditioner is installed properly.



Regular site inspections and progress meetings

During the implementation stage, our project director will conduct periodic site inspection to inspect the work progress and work quality and supervise our subcontractors in order to ensure that all works performed are up to the standard as required in the relevant contract. Our subcontractors are required to report to us on a regular basis. Our executive Directors will have regular meetings with our project team to update on the project progress and discuss major issues. Where subcontractors are engaged to assist us in completing a project, these subcontractors may be responsible for the purchase of certain minor materials and consumables such as tiny metal components and spare parts, the costs of which are generally embedded in the overall subcontracting fees as agreed with us.

Apart from our project director, our customer (or the main contractor) also assign representatives to supervise the implementation of the overall construction project (including our part) and monitor the work progress. Our project team will have site progress meetings with such representatives on a regular basis to report and follow up on relevant issues involved.

Progress payments

We are entitled to receive progress payments from our customers. Application for progress payments generally commences when we commence our sitework. Our applications for progress payment, which sets out the amount and value of workdone, is normally made on a monthly basis. Based on the works performed by us in the preceding month, we submit to our customers interim payment applications which generally include, among other things, details of the works completed during the period and, where we are responsible for procurement of HVAC systems, the costs of HVAC systems delivered for installation during the period.

Once our customer has approved our payment application, a payment certificate will be issued to us. Our customer will usually retain up to 10% of each interim payment and up to a maximum limit of 5% of the contract sum as retention money. For details of the arrangements relating to progress payments and retention money arrangement with our subcontractors and customers, please refer to the paragraphs headed “Subcontractors — Major terms of engagement with our subcontractors” and “Customers — Major terms of engagement with our customers” in this section respectively.

Variation Orders

In some cases, our customers may demand additions and/or modifications on our scope of work which may range from relatively minor on-site out-of-scope works, variation and/or extension of pipeworks to procurement and installation of additional HVAC systems and/or dismantling our works done and re-working as a result of changes in architectural and/or layout designs. Our customers may request these major and minor additional and modification works from time to time in different stages of a project, pursuant to which we may carry out those works with time and cost implication and recognise those amendments to the original contractual terms as variation orders.

Works done under variation orders are subject to verification by our customers and are typically certified in the form of payment certificates. To the best of our management’s understanding and experience, generally our customers have a tendency to prioritise the certification of our works done under the original contract before that of variation orders, as certification of original contract works is generally a regular process during contract execution. Verification and certification on works done under

variation orders, on the other hand, could be cumbersome and more time consuming as it may involve a variety of additional and modification works of different types and natures during different stages of project execution which are varied from the original contract terms and at times, resulting from changes to the original architectural and/or layout design as initially agreed under the original contract. In this connection, variation orders are generally processed after the bulk of our original contract works are completed and certified, and more commonly close to or after practical completion of a project to facilitate comparison of the “as-fitted” status of the projects (reflecting all works done under various variation orders) to the original design and work plan as agreed under the original contract.

Regardless of the above general timeline, based on the best understanding and experience of our management, the timeframe for verification and certification of our variation orders may differ from project to project and from customer to customer, and may be affected by factors such as practice and internal procedures of our customers, complexity and scale of variation orders and number of variation orders involved in a project. Aside from the issue of timing, the amount of compensation (i.e. fees and charges) that we may receive from our works done under variation orders requires to be negotiated with, determined and agreed by our customers and generally can only be ascertained as and when payment certificates of the variation orders are issued to us (whether in stages or as a whole).

According to the Frost & Sullivan Report, variation orders are relatively common among the construction related industries and the above arrangements are generally in line with industry practices. During the Track Record Period, our revenue associated with variation orders amounted to approximately HK\$4.3 million, HK\$2.4 million and HK\$15.7 million, representing approximately 3.4%, 2.2% and 12.5% of our total revenue, respectively.

Completion Phase

Defects liability period and release of retention money

Once the contracted installation works are completed, we will obtain approval for any applicable performance test and perform relevant system testing and prepare a report for customers’ acceptance together with corresponding operating and maintenance manual and as-fitted drawings.

A project is normally regarded as practically completed when a practical completion certificate is issued by the architect of the overall construction project. Our customers are entitled to claim liquidated damages against us in accordance with the agreed daily calculation as stipulated in our contract in case of delay in project completion, unless a completion extension is negotiated and agreed with our customers. Whenever a delay is expected regarding certain stage of a project, the main contractor will notify us or our customers, setting out information regarding the reason for delay such as changes in design, extreme weather conditions, additional work to be undertaken and time implications on the project. After the completion of the project, all delay will be communicated to the architect of the overall construction project for assessment to determine the number of days extended and then to determine whether any liquidated damages will be payable by us. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not received any claim of liquidated damages from, nor incurred any payment of liquidated damages to our customers.

Our customers normally require a defects liability period, during which time we are responsible for rectifying defects or imperfections discovered after completion in relation to our work done. The defects liability period typically lasts for 12 to 24 months after practical completion. Our customers usually

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withhold a maximum limit of up to 5% of the total initial contract sum of projects as retention money to secure our Group's due performance of the contracts. For the relevant parts of the contract that were responsible by our subcontractors, our Directors confirm that subcontractors are generally responsible for rectifying defects or imperfections discovered after completion and during the defects liability period in relation to their work done to ensure their works satisfy the standard of our Group and the requirements of the main contractors and the ultimate employers. During the Track Record Period, we did not experience any material claim by our customers arising from defective works, and we had not made provisions for potential claims by our customers arising from defective works for those contracts which had been completed as at the Latest Practicable Date but were still subject to outstanding defects liability period, on the basis that our track record on the scale of work involved in rectifying defective work during defects liability period were generally immaterial, and we did not experience any material claims during the Track Record Period.

It is generally stipulated in our contracts that 50% of the retention money will be released to us upon practical completion of a project and the remaining 50% of the retention money will be released upon expiry of the defects liability period of a project. As at 31 December 2015, 2016 and 2017, our retention receivables amounted to approximately HK\$5.9 million, HK\$7.4 million and HK\$12.1 million, respectively. Please refer to the paragraph headed "Financial Information — Description of selected consolidated statements of financial position items — Trade and other receivables" in this prospectus for a further discussion and analysis regarding our trade and other receivables.

CUSTOMERS

Characteristics of our customers

We generally undertake HVAC E&M engineering projects as a first-tier or second-tier subcontractor. Often times we are invited through invitation letters, phone calls or emails from our customers to submit tender for a potential project as a subcontractor. Our customers are generally property developers (or their designated subsidiaries/group companies), their designated main contractors or the first-tier HVAC E&M engineering service subcontractors of property development projects.

Major customers

For FY2015, FY2016 and FY2017, revenue attributable to our largest customer amounted to approximately 45.6%, 40.8% and 40.4% of our total revenue, while revenue attributable to our five (or, in the case of FY2015, three) largest customers in aggregate amounted to approximately 100.0%, 100.0% and 100.0% of our total revenue, respectively. We have established business relationship for over 10 years with a majority of our five largest customers of the Track Record Period.

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The following tables set forth the breakdown of our revenue by our five (or, in the case of FY2015, three) largest customers for FY2015, FY2016 and FY2017 and their respective background information:

For FY2015:

Rank	Customer ⁽¹⁾	Summary description of customer	Year(s) of business	Revenue derived from customer	
				HK\$'000	%
1.	Alpha Appliances	an E&M engineering services provider established in 1971 and a well known distributor of a major HVAC brand. Its group was listed on the Stock Exchange from 1997 to 2004 and privatised in 2005	16 years	58,357	45.6
2.	Customer B ⁽²⁾	a subsidiary of a prominent listed property developer in Hong Kong which was established in 1970 and listed on the Stock Exchange in 1972, with businesses covering, amongst others, property development, property investments, hotel operations, infrastructure and construction in Hong Kong, Macau, the PRC and Southeast Asia (as the case may be)	5 years	46,443	36.3
3.	Lik Kai	a wholly-owned subsidiary of a prominent listed property developer in Hong Kong which was listed on the Stock Exchange in 1972, with businesses covering, amongst others, property development, property investments, hotel operations, telecommunications and information technology, infrastructure and transport in Hong Kong, the PRC and Singapore (as the case may be)	15 years	23,230	18.1
Three largest customers combined:				<u>128,030</u>	<u>100</u>
Total revenue:				<u><u>128,030</u></u>	<u><u>100</u></u>

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For FY2016:

Rank	Customer ⁽¹⁾	Summary description of customers	Year(s) of business	Revenue derived from customer	
				HK\$'000	%
1.	Alpha Appliances	an E&M engineering services provider established in 1971 and a well known distributor of a major HVAC brand. Its group was listed on the Stock Exchange from 1997 to 2004 and privatised in 2005	16 years	45,084	40.8
2.	Lik Kai	a wholly-owned subsidiary of a prominent listed property developer in Hong Kong which was listed on the Stock Exchange in 1972, with businesses covering, amongst others, property development, property investments, hotel operations, telecommunications and information technology, infrastructure and transport in Hong Kong, the PRC and Singapore (as the case may be)	15 years	42,626	38.6
3.	Customer B ⁽²⁾	a subsidiary of a prominent listed property developer in Hong Kong which was established in 1970 and listed on the Stock Exchange in 1972, with businesses covering, amongst others, property development, property investments, hotel operations, infrastructure and construction in Hong Kong, Macau, the PRC and Southeast Asia (as the case may be)	5 years	21,975	19.9

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Rank	Customer ⁽¹⁾	Summary description of customers	Year(s) of business	Revenue derived from customer	
				HK\$'000	%
4.	Customer D	a wholly-owned subsidiary of a prominent listed property developer in Hong Kong established in 1950 and, following a reorganisation of the property businesses of two prominent listed group companies in Hong Kong, was listed on the Stock Exchange in 2015, with businesses covering, amongst others, property development, property investments, hotel and service suites operation, infrastructure, utilities and aircraft leasing in Hong Kong, the PRC and overseas (as the case may be)	2 years	544	0.5
5.	Customer E	a subsidiary of a major home appliances distributor in Hong Kong established in 1960 and the Hong Kong general agent of a famous Japanese home appliances brand in Hong Kong and Macau	18 years	238	0.2
Five largest customers combined:				110,467	100
Total revenue:				110,467	100

BUSINESS

For FY2017

Rank	Customer ⁽¹⁾	Summary description of customers	Year(s) of business	Revenue derived from customer	
				HK\$'000	%
1.	Lik Kai	a wholly-owned subsidiary of a prominent listed property developer in Hong Kong which was listed on the Stock Exchange in 1972, with businesses covering, amongst others, property development, property investments, hotel operations, telecommunications and information technology, infrastructure and transport in Hong Kong, the PRC and Singapore (as the case may be)	15 years	50,877	40.4
2.	Customer B ⁽²⁾	a subsidiary of a prominent listed property developer in Hong Kong which was established in 1970 and listed on the Stock Exchange in 1972, with businesses covering, amongst others, property development, property investments, hotel operations, infrastructure and construction in Hong Kong, Macau, the PRC and Southeast Asia (as the case may be)	5 years	25,063	19.9
3.	Alpha Appliances	an E&M engineering services provider established in 1971 and a well known distributor of a major HVAC brand. Its group was listed on the Stock Exchange from 1997 to 2004 and privatised in 2005	16 years	20,942	16.7

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Rank	Customer ⁽¹⁾	Summary description of customers	Year(s) of business	Revenue derived from customer	
				HK\$'000	%
4.	Customer D	a wholly-owned subsidiary of a prominent listed property developer in Hong Kong established in 1950 and, following a reorganization of the property businesses of two prominent listed group companies in Hong Kong, was listed on the Stock Exchange in 2015, with businesses covering, amongst others, property development, property investments, hotel and service suites operation, infrastructure, utilities and aircraft leasing in Hong Kong, the PRC and overseas (as the case may be)	2 years	15,234	12.1
5.	Wing Shing	a private E&M engineering service provider established in 2012	2 years	13,730	10.9
Five largest customers combined:				<u>125,846</u>	<u>100</u>
Total revenue:				<u>125,846</u>	<u>100</u>

Notes:

1. We have attempted to seek written consents from each of our five largest customers in each of FY2015, FY2016 and FY2017 for disclosure of their identities. However, as of the Latest Practicable Date, aside from Lik Kai, Alpha Appliances and Wing Shing, we have not received written consents from any other customers. As advised by our Legal Counsel, without written consent provided by the respective customers, our Group is subject to confidentiality duties not to disclose identities of our customers under common law, notwithstanding any explicit confidentiality clause stipulated in the contracts restricting the disclosure of the identities of the parties and other information of the agreement between the parties.
2. Revenue derived from Customer B included revenue from projects where we were instructed by Customer B to enter into the relevant contract(s) with independent third party contractor(s) acting jointly with Customer B as joint management contractors, of which Customer B remained as our primary reporting contractor (including, without limitation, certification of our work progress and stage payments) and payor of our fees.

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

Customer concentration

For FY2015, FY2016 and FY2017, the percentage of our total revenue attributable to our five (or, in the case of FY2015, three) largest customers combined amounted to approximately 100%, 100% and 100% respectively. The percentage of our total revenue attributable to our largest customer amounted to approximately 45.6%, 40.8% and 40.4% respectively for the same periods.

We acknowledge that our customers are concentrated and are aware of the risks generally associated with customer concentration. Nevertheless, we do not consider such customer concentration reflects or impacts negatively on our sustainability, taking into account the industry characteristics generally applicable to our business, the specific circumstances relevant to our business and operations, the progress we have so far achieved in reducing our customer concentration and the strategies to be deployed following the Listing.

Factors contributing to our customer concentration

We believe our customer concentration is mainly attributable to the following factors:

Upstream industry landscape

We believe it is not uncommon for companies within the supply-side value chain of the construction, property development and infrastructure industries in Hong Kong to exhibit customer concentration, mainly because the Hong Kong infrastructure and property development markets have a concentrated competitive landscape with limited number of dominant players (including but not limited to the Government) taking up a substantial piece of their respective markets. This in turn poses limitation on their downstream suppliers and service providers, particularly those striving to position as their main contractors or high-tier subcontractors, to achieve a broad and diversified customer base.

Size and duration of project execution

It is our general business pursuit to acquire and service whole residential property projects (or at a minimum a complete phase of a particular property development project) as first-tier or second-tier subcontractor, and as such the projects that we undertake are generally large in size and involve relatively extended duration in project implementation, typically over 12 months and may last for 24 months or more for site works. Nevertheless, these projects provide for relatively larger contract sums recognised as revenue throughout our project execution according to the percentage of completion of our project work. Consequently, the size and duration of projects that we undertake, and the timing and pace of progress of these projects may affect the revenue contribution from our customers, and accordingly the extent of our customer concentration for a given financial year. In addition, in cases where we are awarded with a particularly sizeable project, our ability to bid for and undertake other projects having conflicting timeline in a given financial year will be affected because of our need to allocate resources in accordance with the contracted project progress and completion timeframe and will also lead to periodic customer concentration as reflected in our revenue composition.

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General preference to work with selected valued customers

We consider that it is one of our strengths for maintaining long, stable and mutually trusting relationship with selected major customers. As an example, we have over 10 years of active business relationship with Lik Kai, one of our top five customers for FY2015, FY2016 and FY2017 which is a wholly-owned subsidiary of one of the most prominent listed property developers in Hong Kong. We consider our preference in undertaking projects from selected valued customers, who enjoy broad market recognition, serves to reinforce our reputation and market positioning, and their demonstrated financial strengths safeguard our credit risk exposure. In this regard, we believe we have, to a certain extent, developed a mutually beneficial and complementary business relationship with these selected valued customers, notwithstanding their contribution to our customer concentration.

Availability of financial resources

The extent of our ability to concurrently undertake multiple projects is also affected by the availability of financial resources in view of the significant working capital requirements associated with undertaking sizeable projects, particularly as first-tier or second-tier subcontractor. Moreover, as cited in the Frost & Sullivan Report, it is increasingly common in HVAC E&M service contracts to require subcontractors to supply HVAC systems as part of contract performance, which further intensify the working capital pressure on subcontractors. As a private company with relatively limited channels for external financing, we tend to gear towards customers and projects that do not require procurement of HVAC systems to better conserve and manage our working capital. This however also poses a constraint on our customer preference and limits our ability to further diversify our customer base.

Efforts to reduce our customer concentration

While the industry in which we operate may impose a tendency towards customer concentration as explained in the paragraph headed “Upstream industry landscape” above, we have been expending significant efforts to lessen our customer concentration, including adjusting our project selection strategy to increasingly weigh in customer base diversification in addition to working capital and profit margin considerations. Thanks to our management’s efforts in actively exploring and securing projects from new customers, during FY2017, we secured a residential development project (MT21) for installation services with HVAC systems procurement with a new customer which is a well-known Hong Kong property developer, with an awarded contract sum of approximately HK\$18.8 million. Further, subsequent to the Track Record Period, we were invited and accordingly submitted tender for an installation services with HVAC systems procurement type of project to another potential new customer which is also a long established property developer in Hong Kong (tender result was still pending as at the Latest Practicable Date). We expect with our active effort in expanding business reach to more property developers, we will achieve a more diversified customer portfolio going forward.

On top of the above, we endeavour to utilise the proceeds from the Share Offer to further strengthen our working capital conditions to undertake more projects from an expanded customer base, particularly projects that require procurement of HVAC systems from their HVAC E&M subcontractors which we historically were more reluctant to undertake due to our limited working capital availability.

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We believe with a successful Listing and the proceeds from the Share Offer, our financial strengths will be further enhanced to support our continuous efforts and measures to reduce our customer concentration.

Relationships with customer that was also our supplier during the Track Record Period

Customer E, which became our customer initially in 2000 and was one of our five largest customers for FY2016, is a subsidiary of a major distributor of home appliances and the general agent of a famous Japanese home appliances brand in Hong Kong. We reported revenue of approximately HK\$238,000 from Customer E for our provision of HVAC systems installation services in FY2016, representing approximately 0.2% of our total revenue for the corresponding period. On the other hand, during the Track Record Period, we also procured thermos ventilators and window fans in the amount of nil, nil and approximately HK\$274,000, representing nil, nil and approximately 0.5% of our total purchases, from Customer E as well as a supplier who, to the best of our Directors' understanding, belongs to the same group of companies as Customer E. Whilst we purchase similar materials from other suppliers, the terms of sales we entered into with other suppliers were similar to those we entered into with this particular supplier.

Wing Shing, one of our five largest customers for FY2017, is an E&M engineering services provider in Hong Kong. During the Track Record Period, we were contracted with Wing Shing to provide HVAC systems installation services, and reported revenue of nil, nil and approximately HK\$13.7 million, representing nil, nil and approximately 10.9% of our total revenue for the corresponding years respectively. During the Track Record Period, we also engaged subcontracting services in the amount of approximately HK\$1.5 million, HK\$280,000 and nil, representing approximately 2.0%, 0.5% and nil of our total purchases, from a subcontractor who, to the best of our Directors' understanding, belongs to the same group of companies as Wing Shing. Whilst we engaged other subcontractors for similar services, the terms of engagement we entered into with other subcontractors were similar to those we entered into with this particular subcontractor.

Contra-charge arrangement with our customer

According to the Frost & Sullivan Report, it is common in the construction industry that a main contractor may pay on behalf of its subcontractor for certain expenses incurred in a construction project. Such expenses are typically deducted from its payments to that subcontractor in settling its service fees for the project. Such payment arrangement is referred to as "contra-charge arrangement" and the amounts involved are referred to as "contra-charge".

During the Track Record Period, we had contra-charge arrangement with Lik Kai. Pursuant to the contra-charge arrangement, upon receipt of our request, Lik Kai may purchase materials such as PVC cables and ACR copper tubes for our use based on the purchase prices we negotiated with our suppliers, and settle the corresponding purchase payments on our behalf. We would then settle such material costs with Lik Kai through contra-charge arrangement, pursuant to which such material costs (that is, the contra-charge) will be netted as our cost of services against our progress fees receivable from Lik Kai as and when they are settled. As our progress fees are reduced by the same amount as our material costs paid for by Lik Kai on our behalf, the contra-charge arrangement has no material effect on our cashflow positions during the Track Record Period. For each of FY2015, FY2016 and FY2017, our contra-charge with Lik Kai amounted to approximately HK\$5.8 million, HK\$1.9 million and HK\$3.7 million, respectively, representing approximately 8.1%, 3.7% and 6.6% of our total purchases.

Marketing activities

During the Track Record Period, we secured new businesses mainly through tender by invitation, and did not maintain a specialised team of sales and marketing staff. Instead, our founders and executive Directors, Mr. Tony Cheung and Mr. Gary Cheung, having possessed extensive industry experience and established client relationship, are generally responsible for liaising and maintaining our relationship with customers and keeping abreast of market developments and potential business opportunities. We believe that the Listing will serve as a breakthrough in promoting our Group in the construction and property development industries as well as the general public, which in turn will serve to further enhance our corporate profile, solidify our market standing and positively facilitate our future business developments.

Pricing strategy

We generally adopt a cost-plus pricing model for our project pricing with markup determined on a project-by-project basis. We estimate our costs of undertaking a project with reference to factors including:

- the estimated number and types of HVAC systems involved;
- the estimated number and types of workers required;
- the specifications required in the tender or quotation documents;
- the duration and completion timeframe of the project works;
- the availability of our manpower resources and any expected subcontracting involved;
- the technical difficulties expected to encounter and the corresponding methodology to be adopted for project execution;
- the accessibility to the work site and its vicinity;
- the prospect of obtaining future projects from the customers; and
- the prevailing market conditions in general.

To facilitate our budget and initial cost estimates for the purpose of preparing our tenders (and project quotations, as the case may be), we may obtain preliminary quotations for subcontracting works, materials and consumables (particularly on HVAC systems where the tender specification stipulates that the successful bidder is required to procure as part of contract performance) from potential subcontractors and suppliers to facilitate a better estimate on project costs. We generally provide for a certain margin on estimated costs of materials and consumables when preparing our tenders and project quotations, and generally strive to negotiate with relevant suppliers for quantity discounts or competitive pricing terms as a mean to safeguard our profit margin. On the other hand, a fixed scope of work will be agreed upon with customers, based on which our tender is prepared.

Cost control

Our projects are in general labour intensive. Depending on the scale of a project, the specific technicalities required, the required completion timeframe and our manpower availability, we may also engage subcontractors to assist us in completing on-site works of a project. Our project team is required to monitor work progress and quality of our project and its overall adherence to our project budget, make arrangements with and supervising our subcontractors and suppliers, overseeing materials and consumables sourcing, and take up relevant tasks as required in the contract. Any material deviation in the actual time and resources spent from initial estimation may result in significant cost overruns which may in turn adversely affect our project profitability and hence our financial results. Besides, material costs deployed in projects is also a crucial factor which may impact our project profitability. In addition, our project budget is analysed against actual costs incurred on a quarterly basis and updated if material deviations are noted, to facilitate our on-going cost control and monitoring of project profitability.

During the Track Record Period, we did not experience any loss-making projects as a result of material inaccurate budget estimation or cost overruns.

Major terms of engagement with our customers

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

- Contract period* : The period within which the project has to be completed commence from the commencement date of the contract. The contract period varies depending on the project size and complexity. However, such period may be extended pursuant to the terms of the relevant contract.

- Scope of work* : This term identifies the types and scope of the work in detail which we are engaged to perform under the contracts, for details please refer to paragraph headed “Operational workflow — Implementation phase — Installation of HVAC systems” in this section.

- Bills of quantities or schedule of rates* : Most of our contracts would include the bills of quantities or schedule of rates which generally contain the description of the types of work, specifications, quantities of works to be done and the unit rates for each type of works under the project.

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- Payment terms* : For interim or progress payment, we generally provide our customers with a written statement of the details of completed works and the estimated fee of our work done on a monthly basis. In respect of final payment, we usually issue final payment application showing the amount we are entitled to for our customers' approval. For details, please refer to the paragraphs headed "Operational workflow — Implementation phase — Progress payments" and "Operational workflow — Completion phase — Defects liability period and release of retention money" in this section.
- Retention money* : Our customers may hold up a certain percentage of each interim payment made to us as retention money. Such percentage is generally 10% of each interim payment, subject to a ceiling up to 5% of the total initial contract sum of projects. Retention money withheld are normally released to us after the receipt of practical completion certificate and the expiry of the defects liability period.
- Variation order* : The customer may instruct us to carry out additions and/or modification of our scope of work under the original contract by variation orders. For details, please refer to the paragraph headed "Business — Operational workflow — Implementation phase — Variation orders" in this section.
- Surety bonds* : When we undertake large-scale projects, our customers may require us to arrange with banks or insurance brokers to provide surety bonds in the amount of certain percentage of the awarded contract sum to them to ensure our due performance and observance of a subcontract.
- Liquidated damages and extension of completion* : A contract may contain clauses on liquidated damages to protect our customers against any significant delay in completion of works subcontracted to us. However, under certain circumstances such as poor weather conditions or issue of variation orders, our customers may grant us extension of time without a need to pay liquidated damages to our customers.
- Insurance* : Our customers as main contractors are responsible for taking out contractors' all risk insurance, employees' compensation insurance and third party liability insurance, details of which are set out in the paragraph headed "Insurance" in this section.

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Indemnities : For most of our projects, we are required to indemnify our customers against (a) all losses, liabilities, claims, damages, costs, charges and expenses which may arise out of or in connection with any breach of the subcontract, negligence, non-compliance of any laws and regulations, omission on the part of our Group, our employees, our subcontractors, our subcontractors' employees or any persons in connection with us or (b) any loss, liabilities, claims, damages, costs, charges and expenses resulting from any bodily injuries, death or occupational diseases of our employees, our subcontractors, our subcontractors' employees or any persons in connection with us (to the extent that is not covered by insurance).

Our Directors confirm that we had not experienced any material claims by our customers during the Track Record Period and up to the Latest Practicable Date.

Termination : If, in the opinion of our customers, we fail to execute the works in accordance with our customers' requirements and our works are unsatisfactory or likely to be so and cause undue delay to the overall progress of the project, our customer may terminate our contract by giving advance notice of intention of doing so.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any early termination of contracts by our customers.

Defects liability period : We are generally subject to a defects liability period and we are responsible for rectifying all defective works, if any, at our own expense during such period. The defects liability period, which is normally 12 to 24 months depending on the nature and scale of the project, generally commences upon the date of practical completion of the project.

If any defects or imperfections are identified, we will undertake rectification works so that the defects can be remedied as soon as practicable. We will then arrange our site workers to execute the rectification works at our own costs or, where applicable, require the relevant subcontractor to rectify the defects and/or bear the rectification costs.

Credit management and collection of our trade receivables and retention monies receivables

The typical credit terms stipulated in our contracts during the Track Record Period ranged from 30 to 45 days from the issue of payment certificate. Our accounts receivable is normally settled by cheque in Hong Kong dollars. We determine specific provision for doubtful debts relating to accounts receivable

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on a case-by-case basis and provision is made when there is objective evidence that our Group will not be able to collect part or all of the outstanding debts. We did not make any provision for doubtful debts relating to accounts receivable during the Track Record Period.

As at 31 December 2015, 2016 and 2017, we recorded trade receivables of approximately HK\$10.6 million, HK\$2.8 million and HK\$27.4 million, respectively, of which approximately HK\$2.2 million, HK\$0.4 million and HK\$16,000, respectively had been past due but not impaired. For FY2015, FY2016 and FY2017, our trade receivables turnover days were approximately 32 days, 22 days and 44 days, respectively. In addition, approximately 87.0%, 87.2% and 33.6% of our total trade receivables as at 31 December 2015, 2016 and 2017, respectively, were due from our Group's largest customer, respectively.

In order to mitigate our risk in relation to the collectability of our trade receivables and retention monies receivables, we have implemented the following measures:

- Before deciding whether to submit a tender, we normally consider factors such as the creditworthiness of the relevant customers and the key project terms in relation to our project execution. Customer acceptance procedures are performed on our customers, including but not limited to checking our internal records regarding the payment history of the relevant customers. For sizeable projects and depending on specific circumstances we may conduct appropriate searches to ascertain the potential customer's credibility.
- We closely monitor payments from our customers pursuant to the terms of each respective project. Regular meetings are held among our executive Directors, project teams and finance department to review the aging status of our accounts receivable. Material overdue payments are monitored continuously and evaluated on a case-by-case basis and appropriate follow-up actions will be taken having regard to the customer's normal payment processing procedures, our business relationship with the customer, past reputation, its financial position as well as the general economic environment. Follow-up actions generally include but not limited to issuing payment reminders, actively liaising with customers, and, if necessary, taking legal actions.
- In addition, we review the recoverable amount of each individual receivable balance at the end of each reporting period to ensure adequate impairment losses are provided for irrecoverable amounts. During the Track Record Period, we have no impairment loss.

Please also refer to the paragraph headed "Financial Information — Description of selected consolidated statements of financial position items — Trade and other receivables" in this prospectus for further discussion and analysis on our trade receivables and our trade receivables turnover days during the Track Record Period.

SUPPLIERS

Characteristics of our suppliers

During the Track Record Period our suppliers mainly include: (i) suppliers of materials such as HVAC systems and other ancillary consumables such as pipes and fittings; and (ii) subcontractors we engaged to assist us in completing on-site works. During the Track Record Period, our suppliers were all located in Hong Kong and all our purchases were denominated in Hong Kong dollars. We generally settle our purchases by cheques or chats via local banks.

We do not enter into any long-term supply agreements with our suppliers and we generally engage relevant subcontractors and order relevant materials and consumables on a project-by-project basis. Our Directors believe that we have maintained good business relationships with our suppliers. As at the Latest Practicable Date, there were over 60 suppliers included in our approved list of suppliers. We select our suppliers from our approved list of suppliers based on their prices, quality, past performances and timeliness of deliveries. Our suppliers of materials and consumables normally grant us a credit period of up to approximately 60 days from the invoice date.

Procurement of materials and consumables

During the Track Record Period, the major types of materials and consumables we procured included, among others, air-conditioners, thermo ventilators, PVC cables, ACR copper tubes and fittings, waterproof glue and insulation tubes. For FY2015, FY2016 and FY2017, our costs of materials and consumables accounted for approximately 35.6%, 28.6% and 37.6% of our total cost of services, respectively.

Procurement and delivery arrangements

We generally place orders for materials and consumables used in our projects according to our work plan and schedules, and indicate on our purchase orders the different tentative delivery dates and the corresponding batches of quantities required. For major materials such as HVAC systems we typically require delivery to be made directly to the relevant work sites for immediate use or installation. For certain ancillary consumables such as PVC cables, ACR copper tubes and fittings, waterproof glue and insulation tubes, depending on specific project work plans we may require delivery to our office for certain pre-assembling works before they are on-shipped to the work sites within a short timeframe.

Prices of materials and consumables

Prices of our materials and consumables are determined by reference to quotations of suppliers as agreed between us and the suppliers on an order-by-order basis. Our Directors consider that supplies of the ancillary materials and consumables used in our projects are generally abundant in Hong Kong and their prices are generally relatively stable. Additionally, when preparing tenders and quotations for our potential projects, we generally conduct preliminary enquiries or obtain preliminary quotations from our suppliers for major materials such as HVAC systems. As such we are generally able to estimate and factor in, with a reasonable degree of clarity, our costs of materials and consumables into our project tenders and quotations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material fluctuations in the costs of materials and consumables that had a material impact on our business, financial condition or results of operations.

Subcontractors

According to the Frost & Sullivan Report, it is a common industry practice for subcontractors to further subcontract part of their works to other subcontractors. Depending on the scale of a project, the specific technicalities required, the required completion timeframe and our manpower availability, we may engage subcontractors to assist us in completing on-site works of a project. While we may subcontract out part of the installation process or overall installation works for part of the site areas (e.g. certain floors of a building), we are typically responsible for the quality control of the works of our subcontractors and our project director conducts regular on-site checking and inspection on the works of our subcontractors. During the Track Record Period, all of our subcontractors were located in Hong Kong and all of our subcontracting fees were denominated in HK dollars.

We are accountable to our customers for the works performed in a project, including those carried out by our subcontractors. Unless otherwise specified in the contracts with our customers, our customers generally consent to our use of subcontractors for a project and do not limit which subcontractors are used by us. According to the agreements we entered into with our subcontractors, we are entitled to hold our subcontractors liable for any damages suffered by our Group as a result of their works.

For FY2015, FY2016 and FY2017, we incurred subcontracting fees of approximately HK\$39.5 million, HK\$31.6 million and HK\$29.3 million, representing approximately 43.3%, 43.7% and 39.5%, respectively, of our cost of services. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material fluctuations in subcontracting fees that had a material impact on our business, financial condition or results of operations.

Basis of selection of subcontractors

We carefully evaluate the performance of our subcontractors and select subcontractors based on a range of factors such as their background, technical capability, experience, fee quotations, service quality, track records, labour resources, reputation and safety performance. We maintain a list of approved subcontractors which is updated according to our assessment of their performance on a continuous basis.

Major suppliers

For FY2015, FY2016 and FY2017, purchases from our largest supplier amounted to approximately, 20.5%, 26.8% and 20.8% of our total purchases, respectively, while purchases from our five largest suppliers combined amounted to approximately 64.4%, 63.9% and 49.7% of our total purchases, respectively.

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Set out below is a breakdown of our five largest suppliers during the Track Record Period and their respective background information:

Five largest suppliers for FY2015

Supplier	Principal business activities	Types of services/materials procured by us	Year(s) of business relationship	Total purchase amount from supplier	
				HK\$'000	%
1. Supplier A	a private limited company engaging in the provision of HVAC systems installation services	Installation of HVAC systems	5 years	14,759	20.5
2. Way Ching Development (H.K.) Ltd. (“Way Ching”)	a private limited company engaging in the provision of HVAC systems installation services	Installation of HVAC systems	3 years	10,590	14.7
3. Yun Kee Engineering & Trading Co. Ltd.	a private limited company engaged in the sales and distribution of HVAC systems	Supply of HVAC systems	4 years	10,486	14.6
4. Hang Fung Air-condition Engineering (“Hang Fung”)	a sole proprietorship engaging in the provision of HVAC systems installation services	Installation of HVAC systems	8 years	6,016	8.4
5. Hang Fat Kee Air Conditioning Metal Company Limited (“Hang Fat Kee”)	a private limited company engaging in the operation of hardware store	Supply of air-conditioning accessories	9 years	4,489	6.2
Five largest suppliers combined:				46,340	64.4
All other suppliers:				25,631	35.6
Total purchases:				71,971	100

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Five largest suppliers for FY2016

Supplier	Principal business activities	Types of services/materials procured by us	Year(s) of business relationship	Total purchase amount from supplier	
				HK\$'000	%
1. Way Ching	a private limited company engaging in the provision of HVAC systems installation services	Installation of HVAC systems	3 years	14,005	26.8
2. Hang Fung	a sole proprietorship engaging in the provision of HVAC systems installation services	Installation of HVAC systems	8 years	6,648	12.7
3. Supplier E	a private limited company engaging in sales and distributions of HVAC systems	Supply of HVAC systems	16 years	5,944	11.4
4. Hang Fat Kee	a private limited company engaging in the operation of hardware store	Supply of air-conditioning accessories	9 years	3,675	7.0
5. Chung Kin Engineering Company ("Chung Kin")	a sole proprietorship engaging in the provision of HVAC systems installation services	Installation of HVAC systems	4 years	3,144	6.0
Five largest suppliers combined:				33,416	63.9
All other suppliers:				18,877	36.1
Total purchases				52,293	100

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Five largest suppliers for FY2017

Supplier	Principal business activities	Types of services/ materials procured by us	Year(s) of business relationship	Total purchases from supplier	
				HK\$'000	%
1. San Yik Air Conditioning Engineering Company Limited	a private limited company engaging in the sales and distribution of HVAC systems	Supply of HVAC systems	1 year	11,901	20.8
2. Way Ching	a private limited company engaging in the provision of HVAC systems installation services	Installation of HVAC systems	3 years	8,020	14.1
3. Supplier A	a private limited company engaging in the provision of HVAC systems installation services	Installation of HVAC systems	5 years	3,735	6.5
4. Chung Kin	a sole proprietorship engaging in the provision of HVAC systems installation services	Installation of HVAC systems	4 years	2,378	4.2
5. Hang Fat Kee	a private limited company engaging in the operation of hardware store	Supply of air-conditioning accessories	9 years	2,325	4.1
Five largest suppliers combined:				28,359	49.7
All other suppliers:				28,754	50.3
Total purchases				<u>57,113</u>	<u>100</u>

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

During the Track Record Period, we did not experience any material difficulties or delays in performing our projects as a result of materials and consumables shortage or delay in deliveries, or shortage of manpower or delay in works of our subcontractors.

Major terms of engagement with our subcontractors

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

Contract period : There is no specific term regarding the duration of the subcontracting agreements. The subcontractors are obligated to perform the subcontracting works with reference to the contract term of the main contract between us and our customers.

Subcontracting fees and payment terms : In general, we determine the subcontracting fees based on (i) the complexity of the subcontracting works to be done; (ii) the amount of labour resources required for the subcontracting works; (iii) the nature of works to be performed by our subcontractors; and (iv) the prevailing market conditions. There is no price adjustment clause in the subcontracts between our Group and our subcontractors.

Interim payment on monthly basis is generally adopted and we are generally obliged to pay our subcontractors within 30 days upon receipt of their payment application. Subcontractors will then receive payment based on the certified amount less the retention money within 30 days from the issuance of the interim certificate. Therefore, our Directors consider that our payment pattern does not deviate from the SOPL and our payment practice and cash management will not be materially affected by the SOPL if it becomes effective.

Safety : The subcontractor shall comply with the provision of statutory safety regulations relating to the carrying out of the subcontracting works. The subcontractor shall also indemnify our Group against any expenses, penalties and other losses sustained as a consequence of the subcontractors' non-compliance with the relevant safety rules or regulations.

Environment : The subcontractor shall comply with the provision of statutory environmental protection regulations relating to the carrying out of the subcontracting works. The subcontractor shall also indemnify our Group against any expenses, penalties and other losses sustained occasioned as a consequence of the subcontractors' non-compliance with the relevant statutory environmental protection rules or regulations.

Quality : The subcontractor shall complete the subcontracting works with good quality which satisfies the standard of our Group and the requirements of the main contractors and the ultimate employers.

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Illegal workers : The subcontractor shall comply with the provision of statutory employment regulations relating to the recruitment of workers for the subcontracting works. The subcontractor is obligated to ensure the valid identity and no serious health issue of its workers.

Termination : We are entitled to terminate the contracts with our subcontractors if they fail to execute the works in accordance with our customers' requirements and their works are unsatisfactory or likely to be so and cause undue delay to the overall progress of the project by giving advance notice of intention of doing so.

QUALITY CONTROL

Our project directors closely monitor the progress of each project to ensure that our services (i) meet our customer's requirements; (ii) are completed within the time stipulated in the contract and the budget allocated for the project; and (iii) comply with all relevant rules and regulations. Our project directors will monitor overall work quality and project progress and perform on-site inspections and supervise site workers regularly. Our project directors will timely inform our executive Directors of the project status and any quality issues arising from project execution.

Materials and consumables

We closely monitor the quality of materials and consumables we purchase. Our procurement staff will ensure that they are sourced from our approved list of suppliers. We conduct quality control checking on HVAC systems and other types of materials and consumables we procured prior to applying them for installation to ensure the quality of the materials and consumables used in our project. Such quality control checking typically involves: (i) whether the quantity is correct; (ii) whether there is any observable defects; and (iii) whether it functions normally. Any defective products or products that fall short of the product specifications would be returned to the suppliers for replacement. Our customers would also inspect the materials used by us at work sites and verify the specifications from time to time.

Subcontractors and workers

We may be liable to our customers for the performance of our subcontractors and we may also be liable to any potential employee compensation claims and personal injuries claims made by our or our subcontractors' employees arising from work injuries that may happen from time to time. In order to ensure that our subcontractors comply with the contractual requirements and the relevant laws and regulations, we require our subcontractors to follow our internal control measures in relation to quality control, safety and environmental compliance. Our project directors conduct regular site inspections to ensure general compliance by our own workers as well as our subcontractors in quality, safety and environmental requirements. During project implementation, our project team regularly meets with our subcontractors and closely monitors their work progress and performance as well as their compliance with our safety measures and quality standards. For further information regarding our measures in relation to quality control, safety and environmental compliance, please refer to the paragraphs headed "Occupational health and work safety" and "Environmental protection" in this section below.

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On 1 April 2017, the Designated Workers for Designated Skills Provision of the Construction Workers Registration Ordinance came into effect, whereby construction workers will generally be forbidden from undertaking construction works of the designated trade divisions unless they are registered skilled or semi-skilled worker for the relevant trade division or under instruction and supervision of the relevant skilled/semi-workers. Please refer to the paragraph headed “Regulatory Overview — C. Labour, health and safety laws and regulation — Construction Workers Registration Ordinance” in this prospectus for further details. Our Group will employ and require our subcontractors to employ only registered skilled and semi-skilled workers for designated trade divisions to carry out our contracted HVAC E&M engineering works. Our site foremen are responsible for inspecting the registration card of each worker (including the site workers employed by the subcontractors) and shall refuse any person who is not registered as registered construction workers under the Construction Workers Registration Ordinance from entering the site.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not received any complaint or claim for compensation from our customers due to quality issue in relation to the work of our subcontractors, nor were there any material disputes between our Group and our customers or between our Group and our subcontractors with respect to the quality of work of our subcontractors.

INVENTORIES

We do not maintain any inventories during the Track Record Period as our materials and consumables are purchased on a project-by-project basis and are typically applied or consumed immediately or shortly after their respective deliveries from our suppliers.

OCCUPATIONAL HEALTH AND WORK SAFETY

We place emphasis on occupational health and work safety during the delivery of our services as it is our concern not to put our employees, our subcontractors and the general public in hazards. We have adopted an occupational health and safety manual as required by relevant occupational health and safety laws, rules and regulations under the supervision of our project directors, Mr. Cheung Ting Fun Andy and Mr. Yip Kam Ming, whose background and industry experience are set out in the section headed “Directors and Senior Management” in this prospectus.

Occupational health and work safety measures

Set out below is a summary of our work safety measures:

- Effective promotion and communication of safety procedures are maintained through, among others, establishing safety bulletin and detailed record of accident statistics, holding regular internal and external safety meetings, documenting safety measures and issues identified for each project by preparing safety reports and training records.
- We regularly attend safety training organised by the main contractors of the projects, typically covering safety procedures for performing different types of work, first-aid training, safety procedures for emergency and duties and procedures for reporting hazards, incidents, accidents and diseases, and good housekeeping of workplaces.

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- All workers on site, including subcontractors' employees, are required to follow the general safety rules adopted by the main contractor of the relevant project which are communicated to the workers before they commence work and posted on prominent notice boards on site. Workers who breach any such rules will be subject to internal disciplinary actions.
- We designate a member of the project team who have the relevant qualifications as our safety supervisor for each of our projects. Risk assessments are generally conducted by the relevant safety supervisor to identify the potential hazards and accidents and provide suggestion on proper preventive measures prior to commencement of works.
- Site inspections are carried out at least once every two weeks by our project director to ensure strict compliance with the statutory occupational health and safety laws, rules and regulations.
- Specific safety measures in relation to, among others, emergency, working at height, safe operation of machinery and reporting of hazards and accidents are communicated with workers and documented in details.

System of recording and handling accidents and our safety compliance record

If an accident occurs, the injured worker (including our employees and our subcontractors' employees) or the person who witnessed the accident is required to report to the site workers or safety officer of the main contractor. The safety officer will then investigate the accident by taking photos in respect of the accident scene, examine the equipment or material involved (if any) and take statements from the injured worker, witness(es) of the accident (if any) and other personnel in relation to the particular project. If the accident is a "reportable accident" as assessed by the safety officer, he will prepare an accident report and submit it to the main contractor and the main contractor will submit to the Labour Department in accordance with the relevant laws and regulations, if required, within the period as specified under the relevant laws and regulations. "Reportable accidents" means workplace accidents that are required to be reported to the Labour Department. For any accident that results in total or partial incapacity of an employee, the accident should be reported in writing within 14 days after the date of accident. For accidents that involve death or fatal injury to an employee, the accident has to be notified to the Labour Department within seven days after the accident. In the event of dangerous occurrence (as defined in the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)) or fatal accident in Hong Kong, the safety officer will notify the Labour Department and submit the Labour Department's standard "Dangerous Occurrence Report Form" within 24 hours. The safety officer will also complete the investigation on the accident/incident within the same timeframe.

Work injuries during the Track Record Period

We maintain an internal record of our work injuries. All injuries on site must be reported to our safety supervisors and the safety officer of the main contractor who will be responsible for all the reporting to relevant authorities. Report about such work injury will be made to the Commissioner for Labour under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and to the insurance company under the relevant insurance policy.

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In the usual and ordinary course of our business, our employees and the employees of our subcontractors may be injured due to accidents and have the rights to commence employees' compensation claims under Employees' Compensation Ordinance and/or personal injury claims under the common law against our Group within their respective limitation periods.

The following table sets out a comparison of the industrial accident rate per 1,000 workers and the industrial fatality rate per 1,000 workers in the construction industry in Hong Kong between our Group and the industry average during the periods indicated:

	Construction Industry in Hong Kong	Our Group <i>(Note 2)</i>
From 1 January to 31 December 2015		
Industrial accident rate per 1,000 workers in construction industry	39.1 ^(Note 1)	4.5
Industrial fatality rate per 1,000 workers in construction industry	0.2 ^(Note 1)	0
From 1 January to 31 December 2016		
Industrial accident rate per 1,000 workers in construction industry	34.5 ^(Note 1)	2.5
Industrial fatality rate per 1,000 workers in construction industry	0.093 ^(Note 1)	0
From 1 January to 31 December 2017		
Industrial accident rate per 1,000 workers in construction industry	Not available	0
Industrial fatality rate per 1,000 workers in construction industry	Not available	0

Notes:

1. The statistics are extracted from the Occupational Safety and Health Statistics Bulletin Issue No. 16 (August 2016) and No. 17 (August 2017) published by Occupational Safety and Health Branch of the Labour Department of the Government.
2. Our Group's accident rate and fatality rate is calculated by dividing the number of reportable accidents and accidents involving fatal injuries (as the case may be) during the calendar year or relevant period (i.e. two reportable accidents in 2015, one reportable accident in 2016 and nil in 2017) by the number of site workers as at the end of the calendar year and multiplying by 1,000. The number of site workers includes employees of our Group and our subcontractors.

As illustrated above, we achieved an accident rate lower than that of the industry average and zero fatality rate for the three calendar years ended 31 December 2015, 31 December 2016 and 31 December 2017.

During the Track Record Period and up to the Latest Practicable Date, there were three accidents which may give rise to potential employees' compensations or personal injuries claims, details of which are disclosed under the paragraph headed "Litigation and potential claims" in this section below.

INSURANCE

During the Track Record Period and up to the Latest Practicable Date, we have taken out the following insurance policies against the risks and liabilities to which we may be exposed in the course of our business operation:

(i) Employees' compensation insurance

We have taken out employees' compensation insurance to cover our liabilities under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all our employees working in our office as required under section 40 of the Employees' Compensation Ordinance for an amount of up to HK\$100.0 million per event. For any liabilities arising from injuries at construction site, under section 24 of the Employees' Compensation Ordinance, a main contractor is liable to any accident of the workers of its subcontractors on the construction sites and is required to take out an insurance policy for an amount of up to HK\$200.0 million per event to cover its liability and that of its subcontractors under the Employees' Compensation Ordinance and at common law. Therefore, our liabilities and the liabilities of our subcontractors under the Employees' Compensation Ordinance and at common law for injuries at construction site are covered by the insurance policy taken out by the main contractor of the project.

During the Track Record Period, our Group has certain non-compliance with the Employees' Compensation Ordinance. For details, please refer to the paragraph headed "Internal control and risk management — Historical non-compliances" in this section below.

(ii) Contractors' all risks insurance and other insurance taken out by the main contractor

For projects undertaken by us, the relevant main contractor would take out contractors' all risk insurance policies which typically cover (a) liability arising from potential bodily injury to third parties or death as a result of the performance of contract works undertaken by us or by our subcontractors at the construction site; and (b) liability arising from damage to third parties' properties as a result of the performance of our project works undertaken by us or by our subcontractors at the construction site.

(iii) Other insurance coverage

Our Group has maintained insurance coverage against, among others, (a) third party liability in relation to the use of our vehicles for an amount of up to HK\$100.0 million per event; and (b) liability for third party bodily injury occurred in our office premises.

Uninsured risks

Certain risks disclosed in the section headed "Risk Factors" in this prospectus, such as risk in relation to our ability to secure new contractors, potential claims arising from latent defects liability, estimation and management of costs, subcontractors' performance, liquidity risk, etc., are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Our Directors consider that the risk of losses or claims caused by substandard performance of works of or delay caused by the subcontractors is low.

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Our Directors believe that our current insurance policies are adequate and the extent of the above insurance policies is consistent with industry norm having regard to our current operations and the prevailing industry practice. For FY2015, FY2016 and FY2017, our insurance expenses were approximately HK\$492,000, HK\$262,000 and HK\$173,000 respectively. During the Track Record Period and up to the Latest Practicable Date, we had not made and did not make or had not been the subject of any material insurance claim.

ENVIRONMENTAL PROTECTION

Our Group's operations in work sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, such as Air Pollution Control Ordinance, Noise Control Ordinance and Waste Disposal Ordinance. For details of the regulatory requirements, please refer to the section headed "Regulatory Overview" in this prospectus.

We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we had implemented an environmental management system. Apart from following the environmental protection policies formulated and required by our customers, we have also established our environmental management policy to ensure proper management of environmental protection and compliance of environmental laws and regulations by both our employees and workers of the subcontractors on, among others, noise control and waste disposal.

During the Track Record Period, we did not incur any expenses specific to the compliance of our environmental obligations and do not expect to incur any expenses in this respect going forward. During the Track Record Period and up to the Latest Practicable Date, we did not record any non-compliance with applicable environmental requirements that resulted in prosecution or penalty being brought against us.

RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we did not take part in any research and development activity.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group has registered (i) "Man Tung", , , "", "" and "" as our Group's trademark in Hong Kong; and (ii) "www.shun-tung.com" and "www.manshungroup.com.hk" as our domain names. Please refer to the paragraph headed "Statutory and General Information — Further information about the business of our Group — 8. Intellectual property rights of our Group" in Appendix IV to this prospectus for further details of our intellectual property rights.

As at the Latest Practicable Date, (i) we were not aware of any dispute or infringements by our Group of any intellectual property rights owned by third parties; and (ii) we were not aware of any dispute or pending or threatened claims against our Group in relation to material infringement of any intellectual property rights of third parties.

COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, while the overall HVAC engineering and services market in Hong Kong is fragmented with the top five players accounting for around 17.9% of the market share in terms of revenue contribution in 2017, the residential segment is considered concentrated with the top five players in 2017 capturing 49.4% of the market segment, and even more so for the new residential segment with less than 20 market players actively undertaking HVAC E&M engineering services for new property development projects. In this connection, we ranked 11 and accounted for approximately 1.6% of the market share in terms of revenue contribution in the overall HVAC engineering and services market in Hong Kong in 2017 and ranked first in the residential HVAC engineering and services market in Hong Kong in 2017 with 12.0% of total market share according to the Frost & Sullivan Report.

We consider that unlike the fragmented overall HVAC engineering and services market, our focused segment of new residential property development projects has higher barriers of entry. Providing HVAC E&M engineering services for an overall property development project requires, among other things, a sufficient size of experienced in-house technical and project management team and an established and stable supply chain to ensure the consistency and quality of services provided under a strictly enforced project implementation timeframe, while having sufficient financial strength to support the working capital requirements for a typically long project duration. In addition, being acknowledged by property developers and their main contractors for tender invitation requires, in our view, an established market reputation and track record on undertaking sizeable projects, which also serves as a barrier to smaller and less established service providers to enter this particular market segment.

According to the Frost & Sullivan Report, good business relationship with property developers, reputation and customer loyalty and price competition are among the major factors of competition in the HVAC engineering and services market. Aside from these factors, we consider our reputation and established market position, our pool of technical talents, the quality of our work, our safety record and our established relationships with suppliers and subcontractors all serve to distinguish us in the market segment that we focus on.

We believe there continue to exist substantial market development and business potential for HVAC E&M engineering services in the new residential property development segment. As cited in the Frost & Sullivan Report, strong demand for housing, increasing expenditure on housing development and increasing land supply will continue to support a robust growth for Hong Kong's housing development market, which we believe will be particularly beneficial to upper-tier HVAC E&M engineering subcontractors targeting the new residential property market such as us, and will continue to drive our business growth.

Notwithstanding the above, the HVAC engineering and services segment continues to face challenges in shortage of qualified staff and increase in labour cost, as cited in the Frost & Sullivan Report. Nevertheless, we are confident that with our established market standing, particularly with the Listing, we will be able to attract and acquire the technical talents essential for our continued success. Moreover, with our proven track record, experienced project team, quality of work, knowledge in the HVAC E&M engineering works industry and stable relationship with our key customers, suppliers and

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subcontractors, details of which are set out in the paragraph headed “Competitive strengths” in this section, we believe we are well-positioned to capture more business opportunities from the HVAC engineering and services industry in Hong Kong.

Please refer to the paragraph headed “Industry Overview — Competitive landscape of HVAC engineering and services market in Hong Kong” in this prospectus for further details of the competitive landscape of the HVAC engineering and services industry in Hong Kong.

EMPLOYEES

As at the Latest Practicable Date, we had 86 employees who were directly employed by our Group in Hong Kong. The following table sets out a breakdown of the number of our employees by functions:

	As at 31 December 2015	As at 31 December 2016	As at 31 December 2017	As at the Latest Practicable Date
Directors and administration	8	10	9	9
Accounting and finance department	2	5	6	6
Engineer and assistant engineer	7	9	10	13
Foremen	5	6	5	5
Operation and other project staff	54	47	51	53
Total	76	77	81	86

Relationship with our staff

Our Directors consider that we have maintained good relationship with our employees. We have not experienced any significant disputes with our employees or any disruption to our operations due to labour disputes, save as disclosed in the paragraph headed “Litigation and potential claims” in this section below. In addition, we have not experienced any difficulties in recruitment and retention of experienced core staff or skilled personnel during the Track Record Period.

Recruitment policy and training

We generally recruit our employees through placing advertisements in the open market with reference to factors such as their experience, qualifications and expertise required for our business operations. They are normally subject to three months probation period starting on board. We endeavour to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group.

We provide various types of trainings to our employees, including those on occupational health and safety in relation to our work. Such trainings include our internal training as well as courses organised by external parties such as the Construction Industry Council and the Occupational Safety and Health Council.

Remuneration policy

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

During the Track Record Period, our Group has certain non-compliances with the Mandatory Provident Fund Schemes Ordinance. For details, please refer to the paragraph headed "Internal control and risk management — Historical non-compliances" in this section below. Save as disclosed in this prospectus, our Group operates MPF scheme for all qualifying employees in Hong Kong.

Requirements under the Immigration Ordinance

Pursuant to section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) should take all practicable steps to (i) prevent having illegal immigrants from being on site and (ii) prevent illegal workers who are not lawfully employable from taking employment on site. For further information, please refer to the paragraph headed "Regulations overview — C. Labour, health and safety laws and regulations — Immigration Ordinance" in this prospectus.

Our Directors confirm that we have not been involved in any employment of illegal workers (whether directly or indirectly via subcontracting to the best of our Director's knowledge, information and belief) in the past in respect of work sites over which we had or have control or of which we are or were in charge. We have not been subject to any prosecution of any offences under the Immigration Ordinance in relation to the aforesaid requirements in the past. We have implemented the following measures to prevent having illegal immigrants from being on site and to prevent illegal workers from taking employment on site:

- Our administration department is responsible for inspecting and taking copy of the original of the workers' Hong Kong identity card and/or other documentary evidence showing that he/she is lawfully employable in Hong Kong.
- Our foremen is responsible for inspecting the personal identification document of each worker, including the employee of subcontractor, and shall refuse any person who does not possess proper personal identification document from entering the site.

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PROPERTIES

As at the Latest Practicable Date, our Group did not own any property and we rented the following leased property:

Address	Landlord	Approximate gross floor area (sq.ft.)	Use of the property	Key terms of the tenancy
Room 8, 19/F., Cheung Fung Industrial Building, 23–39 Pak Tin Par Street, Tsuen Wan, Hong Kong	Most Harvest Development Limited ^(Note)	2,068.8	Office use	24 months rental agreement from 1 July 2016 to 30 June 2018

Note: Most Harvest Development Limited is a connected person of our Company. For details, please refer to the section headed “Connected Transactions” in this prospectus.

Save as disclosed above, our Group did not have any other property interests as at the Latest Practicable Date.

LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and as at the Latest Practicable Date, save as disclosed below, our Group was not involved in any civil claims and litigations against our Group.

Our Group’s liabilities in case of personal injuries to our employees by accidents arising out of and in the course of their employment include those under (i) the Employees’ Compensation Ordinance; and (ii) common law personal injury claim. The Employees’ Compensation Ordinance establishes a no-fault, non-contributory employee compensation system which gives employees the right to compensation in respect of (i) injuries or death caused by accidents arising out of and in the course of employment, or (ii) prescribed occupational diseases under the Employees’ Compensation Ordinance. A common law personal injury claim may arise if the injury is caused to an employee by our negligence, breach of statutory duty, or other wrongful act or omission. For some of the potential claims, even if the relevant employees’ compensation had been settled under our employees’ compensation insurance, the injured employees may still pursue litigation claims through personal injury claims against us under common law. The damages awarded under common law claims are normally reduced by the value of the compensation paid or payable under the Employees’ Compensation Ordinance in any event.

Our Directors confirmed that to the best of our Directors’ knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, (i) our Group was not subject to any ongoing employee’s compensation claim or personal injury claim; and (ii) during the Track Record Period and up to the Latest Practicable Date, our Group recorded three workplace accidents whereby our employees sustained minor personal injuries which may give rise to potential employees’ compensation or personal injury claims. All such workplace accidents during the Track Record Period and up to the

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Latest Practicable Date had been reported to the Labour Department pursuant to the relevant laws and regulations. As at the Latest Practicable Date, no court action has been taken against any member of our Group in relation to these workplace accidents.

Potential claims refer to those claims that have not commenced against our Group but are within the limitation period of two years (for employees' compensation claims) or three years (for personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong). As such court proceedings have not commenced, we are not in a position to assess the likely quantum of such potential claim. Our Directors take the view that the amount of such potential claim to be borne by our Group in the proceedings shall be covered by relevant insurance policy. These accidents were caused during usual and ordinary course of our business and have not caused disruption to our Group's business or have any adverse impact on our Group to obtain any licences or permits for our operation.

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INTERNAL CONTROL AND RISK MANAGEMENT

Historical non-compliances

During the Track Record Period, there were certain non-compliance incidents of our Group in connection with the Employees' Compensation Ordinance and the Mandatory Provident Fund Schemes Ordinance, details of which are as follows:

Relevant section(s) of ordinance	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action(s)	Estimated/actual fine/penalty
Non-compliance with section 40(1) of the Employees' Compensation Ordinance	<p>During the Track Record Period, our Group took out three employee insurance policies for each of FY2015, FY2016 and FY2017 with aggregate insurance premium of approximately HK\$152,000, HK\$171,000 and HK\$235,000 paid, respectively.</p> <p>During FY2015, FY2016 and the eight months ended 31 August 2017, 25, 29 and 24 employees of the Group were not covered by the abovementioned three employee insurance policies respectively. To the best of our Directors' knowledge, information and belief and having enquired with the relevant insurer, it is estimated that the insurance premium involved for those employees not covered in the relevant periods would have amounted to approximately HK\$79,000, HK\$85,000 and HK\$17,000 respectively during the Track Record Period.</p>	<p>The non-compliance was not wilful and was due to inadvertent oversight of the human resources personnel responsible for handling matters relating to employees' insurance at the relevant time, who failed to inform the relevant insurer of the updates of the Group's employees records in a timely manner. For instance, some of our insurance policies specifically set out the names of the employees in the schedule of the relevant insurance policies but our human resources personnel failed to inform the relevant insurer during instances when there were new staff or replacement of existing employees, as a result staff ceased to be employed by the Group may not have been taken out from the Group's insurance coverage while new staff joining the Group failed to be covered under the relevant Group insurance policies.</p>	<p>Our Group has by August 2017 updated all relevant insurance policies covering all employees of our Group.</p>	<p>Under section 40(2) of the Employees' Compensation Ordinance, the employer in breach of section 40(1) of the Employees' Compensation Ordinance is liable on summary conviction the maximum sentence of a fine of HK\$100,000 and to imprisonment for one year, and on conviction of indictment, the maximum sentence is a fine of HK\$100,000 and to imprisonment for two years.</p> <p>As advised by our Legal Counsel, the Group did not intentionally put its members of staff at risk by failing to take out insurance policy and there was no workplace accident involving the employees without insurance coverage. Hence, the risk of prosecution against the Group is remote.</p>

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Relevant section(s) of ordinance	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action(s)	Estimated/actual fine/penalty
Non-compliance with sections 7, 7A and 7AA of the Mandatory Provident Fund Schemes Ordinance	Failure of our Group to (i) enrol a number of our employees and ex-employees in a Mandatory Provident Fund (the “MPF”) Scheme, (ii) pay MPF contributions or the amount of MPF contribution paid to a number of employees and ex-employees was lower than the maximum MPF contribution or 5% of the monthly income (whichever is lower)	The non-compliance was not wilful and was due to the inadvertent oversight of our (i) human resources personnel who did not inform the relevant registered MPF trustees of the commencement of employment of the relevant employees and ex-employees; and (ii) accounting personnel who did not take into account discretionary bonuses as part of the remuneration of those employees in the MPF calculation due to lack of timely and professional advice at the material time.	Upon discovery of the breach, we have informed the relevant registered MPF trustees of our Group and in September 2017 made up all the known outstanding contributions with the surcharges for the relevant employees and ex-employees (except with one ex-employee who was deceased with his MPF account closed and consequently his corresponding outstanding contributions was not capable of being effected).	Each of our Group and/or its directors may be subject to: For section 7 of the Mandatory Provident Fund Schemes Ordinance, a fine up to HK\$350,000 and imprisonment for 36 months and in the event that the offence consists of failure to comply with section 7(1A) of the Mandatory Provident Fund Schemes Ordinance, there will be a daily maximum default fine in the sum of HK\$500. For sections 7A and 7AA of the Mandatory Provident Fund Schemes Ordinance, a fine up to HK\$100,000 and imprisonment for 6 months on the first occasion on which the person is convicted of the offence and a fine up to HK\$200,000 and imprisonment for 1 year on each subsequent conviction of the offence. As advised by our Legal Counsel, given that the payments were made, and the Mandatory Provident Fund Schemes Authority was informed about the situation in August 2017, the chance of prosecution was not high; and according to section 43B(4) of the Mandatory Provident Fund Schemes Ordinance the prosecution shall be time barred after March 2018.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of us to provide indemnities on a joint and several basis in respect of, among other matters, any and all losses, claims, actions, demands, liabilities, damages, costs, expenses, penalties, fines and of whatever nature incurred or suffered by any member of our Group as a result of or in connection with any violations or breaches or non-compliance of any laws, rules or regulations and/or all litigations, arbitrations, claims, complaints, demands and/or legal proceedings by or against any member of our Group which was issued, accrued and/or arising at any time on or before the Listing Date. Please refer to the paragraph headed “Statutory and General Information — Other information — 13. Tax and other indemnities” in Appendix IV to this prospectus for details of the Deed of Indemnity.

Save as disclosed above and to best of our Directors’ knowledge, information and belief, having made all reasonable enquiries during the Track Record Period and up to the Latest Practicable Date, our Group did not have any litigation proceedings pending or threatened against

us which could have a material adverse effect on our financial condition or results of operations or experience any significant incidents or accidents in relation to workers' safety and we were not convicted for any material breach of workplace safety laws and regulations.

No provision was made in the financial information of our Group in respect of the aforementioned non-compliances as our Directors have taken into consideration the following: (i) up to the Latest Practicable Date, our Directors were not aware of any prosecution instituted against us or any notices for any fine or penalties in relation to the above non-compliances; (ii) even if there is any prosecution, the actual amount of penalty cannot be estimated with reasonable accuracy and the potential maximum penalties of the abovementioned non-compliance incidents are immaterial; (iii) as advised by our Legal Counsel, the likelihood of our Group or our officers being prosecuted, fined or penalised as a result of the non-compliance incidents, in respect of those not having been time barred, is low; and (iv) our Controlling Shareholders shall indemnify our Group pursuant to the Deed of Indemnity.

Internal control system of our Group

We endeavour to uphold the integrity of our business by maintaining an internal control and risk management system into our organisational structure. In preparation for the Listing and to improve our internal control system (particularly in view of our historical non-compliance incidents), in February 2017 we engaged the Internal Control Adviser to perform an internal control long form report review (the "**IC Review**") on the adequacy and effectiveness of our Group's internal control system including the areas of financial, operation, compliance and risk management.

During the course of the IC Review, the Internal Control Adviser identified a number of findings in relation to our internal control system and implementation (including certain historical non-compliance incidents), pursuant to which we have implemented internal control enhancement measures recommended by the Internal Control Adviser including, amongst others:

(i) *Historical non-compliances*

In relation to our historical non-compliance incidents, taking into account the recommendations made by the Internal Control Consultant, our Group has adopted the following key measures with a view of preventing the recurrence of those historical non-compliance incidents:

- (i) to ensure the correctness of the computation of MPF contribution, MPF contribution will be prepared by our human resources and administration manager, checked by our accounting manager and approved by our chief financial officer;
- (ii) our human resources and administration department will be responsible for maintaining the staff record and update the staff record as and when there is any staff recruitment or resignation and notify Inland Revenue Department accordingly; and
- (iii) our human resources and administration department will contact our insurance agents as and when there is any staff recruitment or resignation to increase or decrease the insurance coverage.

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(ii) Corporate governance

We will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. We have established three board committees, namely, the audit committee, the nomination committee and the remuneration committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the paragraph head “Directors and Senior Management — Committees of the Board of Directors” in this prospectus.

To avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed “Relationship with our Controlling Shareholders — Corporate governance measures to safeguard the interest of Shareholders” in this prospectus.

Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after Listing.

(iii) Risk relating to compliance with the Listing Rules after Listing

Our Group has adopted the following measures to ensure continuous compliance with the Listing Rules upon Listing:

- We have established system and manuals in relation to, among others, distribution of annual, interim reports and publication, handling and monitoring of inside information prior to public announcement and other requirements under the Listing Rules.
- Our Directors have attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange.
- We have engaged Messis Capital Limited as our compliance adviser and will, upon Listing, engage a legal adviser as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company.
- We have established an audit committee which comprises all independent non-executive Directors, namely Mr. Pang Kam Fai, Dickson, Mr. Law Chung Lam, Nelson and Mr. Lau Yu Ching. The audit committee has adopted its terms of reference which sets out clearly its duties and obligations to, among other things, overseeing the internal control procedures and accounting and financial reporting matter of our Group, and ensuring compliance with the relevant laws and regulations. For the biographical details of the independent non-executive Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.
- We have appointed Mr. Tang Chi Chiu, an executive Director and our chief financial officer, as our company secretary to be responsible for keeping and updating our statutory records, managing secretarial matters and to ensure ongoing compliance with the Companies Ordinance. Mr. Tang Chi Chiu will also report to our audit committee in case any such non-compliances occur.

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- We will engage the Internal Control Adviser to have an annual review on the adequacy and effectiveness of our internal control system for the financial year ending 31 December 2018, including areas of financial, operational, compliance and risk management.
- When considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters relating to our internal controls and legal compliance.

During the period from July 2017 to January 2018, the Internal Control Adviser performed follow-up review on the enhancement measures taken by us in response to the findings and recommendations from the Internal Control Adviser as well as the progress of our rectification on our historical non-compliance incidents, pursuant to which a final internal control long form report was issued in February 2018 on the basis that our Group was found to have adopted and implemented the enhancement measures and recommendations of the Internal Control Adviser and our historical non-compliances were rectified to the extent practicable.

View of our Directors and the Sole Sponsor

Our Directors consider that the non-compliance incidents as mentioned in the paragraph headed “Internal control and risk management — Historical non-compliances” in this section would not affect the suitability of listing of our Company under Rule 8.04 of the Listing Rules having considered the fact that (i) we have taken various internal control measures to avoid recurrence of the non-compliance incident, as set out above in this paragraph headed “Internal control and risk management — Historical non-compliances” in this section above; (ii) no recurrence of similar material non-compliance incident has taken place since these measures are implemented; and (iii) the above non-compliance incident was unintentional, did not involve any fraudulent act on the part of our executive Directors and did not raise any question as to the integrity of our executive Directors.

Taking into account the above and the fact that (i) none of the above non-compliances were committed wilfully; (ii) such non-compliances have all been rectified to the extent practicable; and (iii) any loss, fee, expense and penalty of our Group in relation to such non-compliance matters will be fully indemnified by our Controlling Shareholders, our Directors consider, and the Sole Sponsor concurs, that the impact of such non-compliance matters would be immaterial to our Group’s operation and financial positions.

The Sole Sponsor, after considering the above and having reviewed the internal control measures adopted our Group, concurs with the view of our Directors that the abovementioned non-compliance incident would not affect the suitability of listing of our Company under Rule 8.04 of the Listing Rules. The Sole Sponsor considers that the non-compliance incidents would not give rise to the concerns on the ability of our executive Directors to oversee our Company’s operation and the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.

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Moreover, having considered that:

- the employees' compensation and personal injury claim against our Group during the Track Record Period was fully covered by the insurance policies maintained by the relevant main contract;
- the non-compliance incidents of our Group did not involve any dishonesty or fraudulent act on the part of our Directors and did not raise any question as to the integrity of our Directors;
- upon discovery of the non-compliance incidents, our Directors immediately carried out remedial actions and had fully rectified all of the non-compliance incidents, if applicable;
- our Group will engage external legal advisers to ensure ongoing compliance with the relevant laws and regulations, and has also implemented the abovementioned internal control measures to prevent recurrence of the non-compliance incidents; and
- there has been no recurring of similar non-compliance incidents since the implementation of such measures,

our Directors confirm, and the Sole Sponsor concurs, that the internal control measures implemented by our Group are sufficient and could effectively ensure a proper internal control system of our Group and prevent any occurrence of non-compliance incident in the future.

LICENCES AND PERMITS

As confirmed by our Directors, our Group has obtained all material licences, permits and approvals required for carrying on our business activities during the Track Record Period and up to the Latest Practicable Date. Contractors qualified or licenced by the relevant authorities are subject to a regulatory regime which is put in place to ensure that quality standards, financial capability, expertise, management, environmental and safety are complied with contract or statutory requirements by the contractors in carrying out their works in both public and private sectors. For details, please refer to the section headed "Regulatory Overview" in this prospectus.

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As at the Latest Practicable Date, our Operating Subsidiaries, namely Man Tung AC E&M, Man Tung AC Works and Shun Tung, had obtained the following licences, permits and approvals:

Relevant Government

Relevant Government departments or public organisations	Registrations and qualifications	Holder	Date of last registration	Expiry date
EMSD	Registered Electrical Contractor	Shun Tung	20 January 2016	17 April 2019
EMSD	Registered Electrical Contractor	Man Tung AC E&M	19 May 2014	26 May 2020
EMSD	Registered Electrical Contractor	Man Tung AC Works	11 July 2016	12 September 2019
Buildings Authority	Minor works contractor (company) <i>(Note)</i> Type A (Classes II & III) Type D (Classes II & III) Type E (Classes II & III)	Shun Tung	14 June 2016	14 June 2019
Buildings Authority	Minor works contractor (company) <i>(Note)</i> Type A (Classes II & III) Type D (Classes II & III) Type E (Classes II & III)	Man Tung AC E&M	17 March 2016	15 March 2019
Construction Industry Council	Registered Subcontractor under the Voluntary Subcontractor Registration Scheme — Electrical wiring — General electrical installation — Electrical control and power panel assembly — HVAC pipe work — HVAC mechanical fitting — HVAC control — Sheet metal and ducting — Insulation	Shun Tung	22 March 2018	21 March 2023

Note: Contractors of specific type and class under minor works contractors can only perform works of specific types, nature, size and at specific location. Type A contractors can perform alteration and addition works. Type D contractors can perform drainage works. Type E contractors can perform works relating to structures for amenities.

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Some of the above registrations and qualifications are subject to annual review and renewal. Our Group will renew all existing registrations and qualifications accordingly before their respective expiry dates. We have not experienced any refusal of renewal of the registrations or qualifications necessary for our operations during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that they are not aware of any circumstances that would significantly hinder or delay the renewal of these registrations and qualifications.

Furthermore, in order to maintain our registrations with the Buildings Authority, our Group has at least one Authorised Signatory to act for it for the purposes of the Building Ordinance and one Technical Director to carry out certain duties, details of which are set out in the paragraph headed “Regulatory Overview — B. Laws and regulations in relation to contractors registration” in this prospectus.

Set out below are the Technical Directors and Authorised Signatories of our Group for the purposes of the Buildings Ordinance:

Qualification	Technical Director(s)	Authorised Signatory(ies)
Man Tung AC E&M		
Minor works contractor (company)		
Type A (Classes II & III)	Mr. Tony Cheung	Mr. Tony Cheung Mr. Wong Tak On
Type D (Classes II & III)	Mr. Tony Cheung	Mr. Tony Cheung
Type E (Classes II & III)	Mr. Tony Cheung	Mr. Tony Cheung Mr. Wong Tak On
Shun Tung		
Minor works contractor (company)		
Type A (Classes II & III)	Mr. Gary Cheung	Mr. Yip Kam Ming
Type D (Classes II & III)	Mr. Gary Cheung	Mr. Yip Kam Ming
Type E (Classes II & III)	Mr. Gary Cheung	Mr. Yip Kam Ming

Our Group has contingency and succession policy to ensure continuity of licenses and permits in the event of vacancy of the Authorised Signatories and Technical Directors. If the Authorised Signatories or Technical Director is unable to carry out his duties, the other Authorized Signatories or Technical Directors in the same Group should immediately take the role. The Board will promptly select an alternate among Authorised Signatories and Technical Director or any another candidate taking into consideration of the skills and experience of the candidates and qualifications requirements for the position. Furthermore, our Group will provide training to experienced staff to enrich their technical and management skills so that our Group will have more selection of alternate in case there is vacancy. The

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Nomination Committee will review the contingency and succession policy annually to ensure the policy is appropriate and shall make recommendations to the Board concerning any improvements or modifications when necessary.

AWARDS AND RECOGNITIONS

As at the Latest Practicable Date, we have been granted the certification of ISO9001:2015 in recognition of our commitment and dedication to quality management system of supply installations and maintenance of air conditioning system:

Nature	Certification	Awarding organisation or authority	Holder	Validity period
Quality Management System	ISO 9001: 2015	Hong Kong Quality Assurance Agency	Shun Tung	27 September 2017– 26 September 2020

The validity of the above certification is subject to the continuing satisfactory operation of the relevant holder's management system and surveillance audits. Our Directors confirm that they are not aware of any circumstances as at the Latest Practicable Date that would significantly hinder or delay the renewal of the certification.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), each of our ultimate Controlling Shareholders, Mr. Tony Cheung and Mr. Gary Cheung, acting in concert as a group of Controlling Shareholders and through Prime Pinnacle (an investment holding company owned as to 51% by Mr. Tony Cheung and 49% by Mr. Gary Cheung), indirectly held in aggregate 75% interest in our Company. Please refer to the section headed “Substantial Shareholders” in this prospectus for details of the shareholding interest of our Controlling Shareholders. Please refer to the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus for further details of the concert party arrangements between Mr. Tony Cheung and Mr. Gary Cheung.

RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders and Directors has confirmed that, he/it does not have and their respective close associates do not have interest in any business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having taken into account of the following factors, our Directors are satisfied that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the Listing.

Financial independence

We have our own accounting and finance team and make financial decisions according to our own business needs. As at the Latest Practicable Date, our Group had banking facilities that were guaranteed by Mr. Tony Cheung and Mr. Gary Cheung, our Controlling Shareholders, and/or the properties held by them or their close associates, as the case may be, details of which are set out in the paragraph headed “Financial Information — Indebtedness” in this prospectus. Such guarantees will be released upon Listing and will be replaced by corporate guarantees from our Company. In addition, as at the Latest Practicable Date, Shun Tung had provided a corporate guarantee in respect of a banking facilities granted to Well Crown Investment Limited, a company owned as to 50% by Mr. Gary Cheung and 50% by his spouse, which will be released upon Listing. As at the Latest Practicable Date, all amounts due from/to our Controlling Shareholders and/or related parties, which are non-trade in nature, had been fully settled. We are therefore financially independent of our Controlling Shareholders and their respective associates.

Our Directors believe that, upon Listing, our Group is capable of obtaining financing from third parties without the support of our Controlling Shareholders. Therefore, our Group will be financially independent from our Controlling Shareholders and/or any of their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational independence

Having considered that (a) we have established our own operational structure comprising individual teams, each with specific areas of responsibilities; (b) we have established a set of internal control procedures to facilitate the effective operation of our business; (c) all the registered trademarks and other intellectual property necessary or desirable for our business are registered under the name of our Group; (d) we have not shared our operational resources, such as suppliers, customers and general administration resources with our Controlling Shareholders and/or their associates; and (e) as at the Latest Practicable Date, save for the exempt continuing connected transaction in respect of our renting of office premise from a company wholly-owned by Mr. Gary Cheung, our Controlling Shareholder (further details of which are set out in the section headed “Connected Transactions” in this prospectus), we have not entered into any other connected transaction with our Controlling Shareholders or their respective close associates that will continue after the Listing, our Directors consider that our Group’s business operation to be independent from our Controlling Shareholders and their close associates.

Management independence

Our Group’s management and operational decisions are made by our Board and a team of senior management. Our Board consists of six members, comprising of three executive Directors and three independent non-executive Directors. Although our Controlling Shareholders, namely Mr. Tony Cheung and Mr. Gary Cheung, will simultaneously be our executive Directors and retain a controlling interest in our Company after the Listing, we consider that our Board and our team of management will function independently because:

- (a) each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted in the quorum;
- (c) with three independent non-executive Directors out of a total of six Directors in our Board, there will be a sufficiently robust and independent voice to the decision-making process of our Board to protect the interests of our independent Shareholders; and
- (d) our senior management members are independent and possess in-depth experience and understanding of the industry in which our Group is engaged.

Our Directors are therefore of the view that we are capable of managing our business independently from our Controlling Shareholders after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Major suppliers' independence

Our Directors confirm that none of our Controlling Shareholders, Directors and their respective close associates have any relationship with the major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Major customers' independence

Our Directors confirm that none of our Controlling Shareholders, Directors and their respective close associates have any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

DEED OF NON-COMPETITION

For the purpose of the Listing, each of our Controlling Shareholders, namely Mr. Tony Cheung, Mr. Gary Cheung and Prime Pinnacle (collectively, the “**Covenantors**”) has given certain non-competition undertakings in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries from time to time) under the Deed of Non-competition, pursuant to which each of the Covenantors, irrevocably and unconditionally, jointly and severally, undertakes to and covenants with our Company (for ourselves and as trustee for and on behalf of our subsidiaries from time to time) on the following terms with effect from the Listing Date and for as long as our Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their close associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue, or are otherwise regarded as Controlling Shareholders:

- (a) undertaking not to engage in competing business: each of the Covenantors shall not, and shall procure each of his/its close associates (other than our Group) not to, either directly or indirectly (whether on his/its own account or with each other or in conjunction with or on behalf of any person, firm or company, whether as a shareholder, director, employee, partner, principal, agent or otherwise (other than being a director or shareholder of our Group or members of our Group), through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, engage in, invest, participate or be engaged in, directly or indirectly, a business or project which is, or be interested, participated, involved or engaged in or acquire or hold any rights or interest (save for the holding in aggregate by the Covenantors and their close associates of not more than 5% shareholding interest in any company listed on the Stock Exchange or any other stock exchange) or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or may in any aspect compete directly or indirectly with the business or which is similar to the business currently and may from time to time be engaged by our Group in Hong Kong (“**Restricted Business**”);
- (b) undertaking not to solicit staff: each of the Covenantors shall not offer employment to, enter into a contract for the services of, or solicit or attempt to solicit or seek to entice away from our Group any individual who is an existing or then director, officer, manager or employee of our Group for employment by him/it or his/its close associates (excluding our Group), or procure or facilitate the making of any such offer or attempt by any other person;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) undertakings in respect of new business opportunity: if any of the Covenantors and/or any of his/its close associates (other than our Group) is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, he/it shall:
- (i) promptly and in any event not later than seven days from the date of offer or becoming aware of the New Business Opportunity notify our Company in writing (“**Offer Notice**”) of such opportunity and provide all information together with any documents possessed by him/it or his/its close associates in respect of the New Business Opportunity and all reasonable assistance as requested by our Company in order to enable our Company to come to an informed assessment of such opportunity; and
 - (ii) use his/its best endeavours to procure that such opportunity is offered to our Company on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its close associates (other than our Group).

If our Group gives a written notice declining the New Business Opportunity and confirming that the New Business Opportunity would not constitute competition with the business of our Group, or if our Group has not given such written notice of our intention to invest in such New Business Opportunity to the Covenantors within 30 business days from our Group’s receipt of the Offer Notice, the Covenantors will be entitled to pursue the New Business Opportunity. The Covenantors agree to extend the 30 business days to a maximum of 60 business days if our Group requires further time to assess the New Business Opportunity by giving a written notice to the Covenantors within the original period of 30 business days.

- (d) general undertakings: each of the Covenantors:
- (i) shall not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as the Controlling Shareholder for any purposes other than for the exercise of shareholders’ rights;
 - (ii) shall address such other enquiries as may be made by the Stock Exchange, the SFC, any other regulatory bodies or our Company from time to time;
 - (iii) shall provide our Company and our Directors (from time to time) with all information necessary and requested by the independent non-executive Directors for their annual review, including but not limited to monthly turnover records and other relevant documents considered necessary by the independent non-executive Directors for their annual review with regard to the compliance and/or enforcement of the terms of Deed of Non-competition and the enforcement of all undertakings, representations and warranties in the Deed of Non-competition;
 - (iv) shall provide our Group, after the end of each financial year of our Company, with a declaration on compliance with such undertakings, representations and warranties in the Deed of Non-competition for disclosure in our Company’s annual reports and use his/its reasonable endeavours to ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-competition and the enforcement of it

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

are in accordance with the requirements of the Listing Rules; and in the event of any non-compliance, provide particulars of such non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in the annual report of our Company for the relevant financial year, such annual declaration shall be consistent with the principles of making voluntary disclosure in the corporate governance report of our Group;

- (v) shall procure that the decision on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition shall be disclosed either through the annual report of our Company or by way of announcements published by our Company to the public; and
- (vi) allow our Directors, their respective representatives and the auditors to have sufficient access to the records of the Covenantors and his/its close associates to ensure their compliance with the terms and conditions under the Deed of Non-competition.

Each of the Covenantors has undertaken to our Company that he/it will abstain from voting on the board level or the shareholder level of our Company and will not be counted in the quorum if there is any actual or potential conflict of interests in relation to the Restricted Business and the New Business Opportunity.

To ensure that the terms of the Deed of Non-competition are observed, our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with and the enforcement of the Deed of Non-competition; and (ii) all the decision made by our Group in relation to whether to take up any New Business Opportunity.

CORPORATE GOVERNANCE MEASURES TO SAFEGUARD THE INTEREST OF SHAREHOLDERS

Our Company will adopt the following corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) compliance with the Listing Rules, in particular strictly observe any proposed transactions between us and connected persons and comply with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules where applicable;
- (b) appointment of the Compliance Adviser as our compliance adviser to advise us on the compliance matters in respect of the Listing Rules and applicable laws and regulations;
- (c) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the meetings of the Board on matters in which such Director or his close associates have an actual or potential material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (d) appointment of three independent non-executive Directors in order to achieve a balanced composition of executive and non-executive Directors in our Board. Our independent non-executive Directors will conduct annual review on the compliance of the Deed of Non-competition and the enforcement thereby by our Company. We believe our independent non-executive Directors possess the qualification and integrity and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Further details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management” in this prospectus;
- (e) our Controlling Shareholders have undertaken and agreed to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (f) our Company will disclose decisions with basis on matters reviewed by our independent non-executive Directors in relation to the compliance with and the enforcement of the Deed of Non-competition either through our Company’s annual report or by way of announcement to the public.

CONNECTED TRANSACTIONS

EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction, which constitutes continuing connected transaction exempt from all reporting, annual review, announcement and independent shareholders' approval (including independent financial advice) requirements under Chapter 14A of the Listing Rules, is expected to continue after the Listing.

Tenancy Agreement with Most Harvest

On 30 June 2016, Shun Tung, as tenant, entered into a tenancy agreement (the “**Tenancy Agreement**”) with Most Harvest Development Limited (滿溢發展有限公司) (“**Most Harvest**”), as landlord, for a term of 2 years commencing from 1 July 2016 and ending on 30 June 2018 in respect of the premises located at Room 8, 19/F, Cheung Fung Industrial Building, 23–39 Pak Tin Par Street, Tsuen Wan, Hong Kong with a saleable area of approximately 2,068.8 sq. ft. for use by our Group as office, at a monthly rental of HK\$35,000 (which was arrived at after arm's length negotiations between Shun Tung and Most Harvest with reference to the prevailing market rent of the surrounding comparable premises in the vicinity of the Premises based on the valuation of an independent valuer appointed by our Group).

For each of FY2015, FY2016 and FY2017, the rental paid to Most Harvest amounted to nil, HK\$215,600 and HK\$420,000 respectively. It is expected that the annual rental payable by our Group under the Tenancy Agreement will be HK\$420,000 during the term of the Tenancy Agreement.

Mr. Gary Cheung is the sole director and sole shareholder of Most Harvest. As (i) Most Harvest is controlled by one of our Controlling Shareholders, namely Mr. Gary Cheung; (ii) Mr. Gary Cheung is the sole director of Most Harvest; and (iii) Mr. Gary Cheung is our executive Director, Most Harvest is a connected person of our Company under the Listing Rules. Accordingly, the transaction under the Tenancy Agreement constitute continuing connected transaction for our Company under the Listing Rules following the Listing. As confirmed by our Directors, except for holding of the Premises, Most Harvest has no other substantial operations as at the Latest Practicable Date.

Since each of the applicable percentage ratios (other than the profits ratio) on an annual basis is less than 5% and the annual consideration payable under the Tenancy Agreement is less than HK\$3,000,000, the Tenancy Agreement is fully exempt from all reporting, annual review, announcement and independent shareholders' approval (including independent financial advice) requirements under Chapter 14A of the Listing Rules.

Our Directors (including our independent non-executive Directors) are of the view that, and the Sole Sponsor concurs, the Tenancy Agreement has been entered into on an arm's length basis, on normal commercial terms and in the ordinary and usual course of business of our Group and that the terms of the Tenancy Agreement are fair and reasonable and in the interests of our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of six Directors comprising three executive Directors and three independent non-executive Directors. The following table sets out the information regarding the members of the Board:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Relationship with connected person(s)	Roles and responsibilities
Executive Directors						
Mr. Cheung Yuen Tung (張元通)	58	Chairman and executive Director	19 November 1996	4 November 2017	Controlling Shareholder and brother of Mr. Cheung Yuen Chau	Responsible for the overall strategic planning, business development, corporate management and sales and marketing of our Group
Mr. Cheung Yuen Chau (張元秋)	53	Chief executive officer and executive Director	19 November 1996	4 November 2017	Controlling Shareholder and brother of Mr. Cheung Yuen Tung	Responsible for the general management and supervising day-to-day operation of our Group
Mr. Tang Chi Chiu (鄧志釗)	34	Executive Director and Chief Financial Officer	3 January 2017	27 February 2018	N/A	Overseeing our Group's overall financial accounting and reporting
Independent non-executive Directors						
Mr. Pang Kam Fai, Dickson (彭錦輝)	61	Independent non-executive Director	8 June 2018	8 June 2018	N/A	Overseeing our Group's compliance, internal control and corporate governance, but not participating in the day-to-day management of our business operation, and serving as chairman of the remuneration committee, members of the audit committee and nomination committee
Mr. Lau Yu Ching (劉裕正)	55	Independent non-executive Director	8 June 2018	8 June 2018	N/A	Overseeing our Group's compliance, internal control and corporate governance, but not participating in the day-to-day management of our business operation, and serving as chairman of the audit committee, members of the remuneration committee and nomination committee

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Relationship with connected person(s)	Roles and responsibilities
Mr. Law Chung Lam, Nelson (羅頌霖)	55	Independent non-executive Director	8 June 2018	8 June 2018	N/A	Overseeing our Group's compliance, internal control and corporate governance, but not participating in the day-to-day management of our business operation, and serving as chairman of the nomination committee, members of the audit committee and remuneration committee

SENIOR MANAGEMENT

Our senior management comprises the following persons:

Name	Age	Position	Date of joining our Group	Relationship among Directors	Roles and responsibilities
Mr. Yip Kam Ming (葉金明)	35	Project director	29 May 2006	N/A	Responsible for management and technical direction of our Group's projects and overseeing project design, development and overall project performance of our Group
Mr. Cheung Ting Fun, Andy (張庭勳)	33	Project director	26 July 2008	Son of Mr. Cheung Yuen Tung	Responsible for management and technical direction of our Group's projects and overseeing project design, development and overall project performance of our Group

DIRECTORS

Executive Directors

Mr. Cheung Yuen Tung (張元通) (or Mr. Tony Cheung), aged 58, is the chairman of the Board, an executive Director and one of our Controlling Shareholders. He was appointed as a Director on 4 November 2017 and redesignated as an executive Director on 12 March 2018. He is also a director of Man Tung AC Works and Man Tung AC E&M. Mr. Tony Cheung is primarily responsible for the overall strategic planning, business development, and corporate management and sales and marketing of our Group.

Mr. Tony Cheung has over 20 years of experience in air-conditioning E&M engineering services industry. Mr. Tony Cheung established a sole proprietorship in 1986 in the trade name of "Man Tung Air-conditioning Works" to carry on the business of providing air-conditioning installation services. He is the co-founder of Man Tung AC Works and Shun Tung and has been a director of Man Tung AC Works since its incorporation on 19 November 1996. Mr. Tony Cheung established Man Tung AC E&M

DIRECTORS AND SENIOR MANAGEMENT

in April 2008 and has been a director of the company since then. Mr. Tony Cheung, together with Mr. Gary Cheung, has been responsible for formulating and determining corporate and business strategies and making major operation decisions, monitoring the business operations, reviewing and approving significant contracts and investment, appointment and appraisal of senior management of our Group.

Mr. Tony Cheung did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Mr. Tony Cheung is the brother of Mr. Gary Cheung, our executive Director.

Mr. Cheung Yuen Chau (張元秋) (or Mr. Gary Cheung), aged 53, is the chief executive officer of our Company, an executive Director and one of our Controlling Shareholders. He was appointed as a Director on 4 November 2017 and redesignated as an executive Director of our Company on 12 March 2018. Mr. Gary Cheung is responsible for the general management and supervising day-to-day operation of our Group.

Mr. Gary Cheung has approximately 20 years of experience in air-conditioning E&M engineering services industry. Prior to joining our Group, Mr. Gary Cheung was involved in the operation of the sole proprietorship “Man Tung Air-conditioning Works” established by Mr. Tony Cheung in the provision of air-conditioning installation services. He is the co-founder of Man Tung AC Works and Shun Tung and has been a director of Shun Tung since its incorporation on 6 November 1998. Mr. Gary Cheung, together with Mr. Tony Cheung, has been responsible for formulating and determining corporate and business strategies and making major operation decisions, monitoring the business operations, reviewing and approving significant contracts and investment, appointment and appraisal of senior management of our Group.

Mr. Gary Cheung was a director of the following companies in Hong Kong prior to their dissolutions:

Name of company	Principal business activity prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
J. B Manufacturing Co., Limited	Manufacturing	16 February 2007	Dissolved by deregistration under section 291AA of the Predecessor Companies Ordinance	Cessation of business
Ease Sun Holdings Limited (怡盛集團有限公司)	Manufacturing	4 September 2009	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business
Golden Victory Develop Limited (金城拓展有限公司)	Property investment	25 July 2014	Dissolved by deregistration under section 750 of the Companies Ordinance	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

Mr. Gary Cheung confirmed that (i) the above companies were solvent immediately prior to their dissolutions; (ii) there was no wrongful act on his part leading to the dissolutions of the above companies and was not aware of any actual or potential claim that had been or would be made against him as a result of the dissolutions; and (iii) no misconduct or misfeasance had been involved in the dissolutions of the above companies.

Mr. Gary Cheung did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Mr. Gary Cheung is the brother of Mr. Tony Cheung, our executive Director.

Mr. Tang Chi Chiu (鄧志釗), aged 34, is our executive Director. Mr. Tang joined our Group as chief financial officer in January 2017. He was appointed as a Director on 27 February 2018 and redesignated as an executive Director on 12 March 2018. He is primarily responsible for overseeing our Group's overall financial accounting and reporting.

Mr. Tang is currently a practising certified public accountant in Hong Kong. Prior to joining our Group, Mr. Tang worked at HLB Hodgson Impey Cheng Limited from February 2007 to April 2009 with his last position being senior accountant. He worked in SHINEWING (HK) CPA Limited from January 2010 to November 2011 with his last position as an assistant manager. Mr. Tang was a finance manager of Fortune Case Limited, a subsidiary of China Fortune Financial Group Limited from May 2012 to July 2013. He has been appointed as a director of TANDEM Groups Limited, TANDEM (HK) CPA Limited, TANDEM (HK) Professional Services Limited, TANDEM (HK) Corporate Services Limited and TANDEM (HK) Consulting Limited since December 2011 and v-Change (HK) Merchants Services Company Limited since August 2017, for which he is responsible for overall strategic planning.

Mr. Tang graduated from City University of Hong Kong with a bachelor's degree in business administration, majoring in accountancy in November 2006. He further obtained a master of science degree majoring in finance from City University of Hong Kong in July 2016. Mr. Tang was admitted as a member of the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) in February 2011.

Mr. Tang was a director of the following company in Hong Kong prior to its dissolution:

Name of company	Principal business activity prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Amir Trading Group Company Limited	Dormant	10 April 2015	Dissolved by deregistration under section 750 of the Companies Ordinance	Dormant

Mr. Tang confirmed that (i) the above company was solvent immediately prior to its dissolution; (ii) there was no wrongful act on his part leading to the dissolution of the above company and was not aware of any actual or potential claim that had been or would be made against him as a result of the dissolution; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tang did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Independent Non-executive Directors

Mr. Pang Kam Fai, Dickson (彭錦輝), aged 61, is our independent non-executive Director. Mr. Pang is responsible for overseeing our Group's compliance, internal control and corporate governance, but not participating in the day-to-day management of our business operation.

Mr. Pang has over 35 years of experience in the legal profession in Hong Kong. Mr. Pang has been a partner of Y.C. Lee, Pang, Kwok & Ip Solicitors since July 1987. Prior to joining Y.C. Lee, Pang, Kwok & Ip Solicitors, Mr. Pang was an assistant solicitor at Gallant Y.T. Ho & Co., Solicitors & Notaries from March 1983 to March 1986. From March 1986 to June 1987, Mr. Pang served as an assistant solicitor at Deacons, Solicitors & Notaries. Mr. Pang has been a legal adviser of Kwun Tong Resident Association, Kwun Tong Association for Elderly Limited and Shun Lee Yin Ngai Society Limited since July 2005, February 2010 and July 2013, respectively.

Mr. Pang was appointed as a Kwun Tong District board member from April 1985 to September 1994. From April 1989 to May 1991, Mr. Pang was an urban councillor. He acted as the district affairs adviser of the News China Agency from March 1994 to June 1997, responsible for advising on district affairs. Since 2012, Mr. Pang has been the vice-president of Eastern Kowloon of Hong Kong of the Scout Association, who is responsible for managing the financial affairs of Eastern Kowloon Region of Hong Kong Scout Association. He was the school manager of Kit Sum Lam Bing Yin Secondary School since 2003 up to August 2017.

Mr. Pang obtained a bachelors of laws degree from The University of Hong Kong in November 1980. He was admitted as a solicitor of the Supreme Court of Hong Kong in March 1983, a solicitor of England & Wales in June 1989 and a barrister of High Court of Australia in December 1989. He was appointed as a civil celebrant of marriages in June 2006.

Mr. Pang was a director of the following company in Hong Kong prior to its dissolution:

Name of company	Principal business activity prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Lions Club of Kwun Tong Limited	Community Service	2 June 2017	Dissolved by deregistration under section 750 of the Companies Ordinance	Ceased to operate

Mr. Pang confirmed that (i) the above company was solvent immediately prior to its dissolution; (ii) there was no wrongful act on his part leading to the dissolution of the above company and was not aware of any actual or potential claim that had been or would be made against him as a result of the dissolution; and (iii) no misconduct or misfeasance had been involved in the dissolution of the above company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Pang did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Mr. Lau Yu Ching (劉裕正), aged 55, is our independent non-executive Director. Mr. Lau is responsible for overseeing our Group's compliance, internal control and corporate governance, but not participating in the day-to-day management of our business operation.

Mr. Lau has over 26 years of experience in accounting and finance. Mr. Lau joined Asia Aluminum Holdings Limited, a company which engages in aluminium profile extrusion and aluminium panel manufacturing in April 1996 with his last position as a chief financial officer. Mr. Lau then joined Asiaalum Holdings Limited in August 2009 as its chief financial controller until July 2014, responsible for corporate management, major business decisions plans and direction of strategic decisions. From July 2014 to June 2015, Mr. Lau was an independent non-executive director of Kirin Group Holdings Limited (formerly known as Creative Energy Solutions Holdings Limited) (stock code: 8109), a company listed on the GEM of the Stock Exchange and principally carries on the business of providing energy efficiency solutions and engineering solutions and engineering services in the PRC, insurance brokerage and money lending services in Hong Kong and information technology services in the Philippines. Mr. Lau has been a director of Aceleap Consulting Limited, a company which carries on the business of the provision of private equity consultancy services since January 2015.

Mr. Lau graduated from the University of Western Ontario in Canada with a bachelor's degree of science in 1989. He is currently an associate member of HKICPA and a fellow member of Association of Chartered Certified Accountants ("ACCA"). He has been admitted as a member of the HKICPA and ACCA in June 1997 and May 1997, respectively. Mr. Lau further became a fellow of the ACCA since May 2002.

Saved as disclosed above, Mr. Lau did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Mr. Law Chung Lam, Nelson (羅頌霖) (formerly known as Law Chi Cheong (羅熾昌)), aged 55, is our independent non-executive Director. Mr. Law is responsible for overseeing our Group's compliance, internal control and corporate governance, but not participating in the day-to-day management of our business operation.

Mr. Law has over 35 years of experience in banking and corporate finance industry. Mr. Law joined Manufacturers Hanover Trust Company in March 1982 with his last position as an officer-in-charge of the regional processing centre, responsible for training, quality control and daily operation. From June 1989 to December 1989, Mr. Law worked as an account officer at the First Interstate Bank of California. From November 1991 to August 1998, he worked at Fillpark Limited with his last position as a general manager. Mr. Law joined Rank Charm Development Limited as a general manager from 1994 to 1996. He also worked as a general manager in Wholewin Group, a company specialised in digital marketing from 2005 to 2008. Since 2008, Mr. Law has been an associate director of JP Advisory Limited, a company specialise in corporate finance. Since September 2013, he has also been the chairman of Angel Fund Co. Ltd., and a non-executive director of Wealth Glory Holdings Limited (stock code: 8269), a company listed on the GEM of the Stock Exchange which principally carries on natural resources trading and financial businesses. Since February 2014, he was employed as a chief operating officer of Cheung Sheng Global Holdings Limited and was responsible for overseeing general operation

DIRECTORS AND SENIOR MANAGEMENT

of the company. Since July 2015, Mr. Law has been a director, chairman and chief financial officer of Sealand Capital Galaxy Limited (United Kingdom stock code: SGCL), a company listed on the London Stock Exchange, responsible for the management of the company and strategic business development.

Mr. Law completed secondary school education in Hong Kong in 1979.

Mr. Law was a director of the following companies in Hong Kong prior to their dissolutions:

Name of company	Principal business activity prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Brightluxe Investments Limited (輝隆投資有限公司)	Trading	15 February 2002	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business
China Luxe International Limited (中南國際有限公司)	Trading	7 October 2005	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business
Deligent Construction Limited (天成基業有限公司)	Construction work	18 October 2002	Dissolved by deregistration under section 291AA of the Predecessor Companies Ordinance	Cessation of business
Liu Nik International Trading Limited (廖力國際貿易有限公司)	Trading	14 October 2016	Dissolved by deregistration under section 750 of the Companies Ordinance	Cessation of business
Pan Merit Pacific Limited (美毅太平洋有限公司)	Trading	6 September 2013	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business
Poline Limited (保航有限公司)	Trading	28 May 2004	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business
Super Power Development Limited (豐裕發展有限公司)	Trading	29 April 2003	Compulsory winding up	Inability to meet its outstanding liabilities (<i>Note</i>)
Genta Limited (鍵誠有限公司)	Trading	27 August 2004	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business

Note: Super Power Development Limited (“**Super Power**”) was incorporated in Hong Kong on 17 October 1997 with limited liability and was principally engaged in food and beverage services business. Super Power was indebted to an independent third party in a sum of HK\$38,200, being arrears of wages, wages in lieu of notice of dismissal, statutory holiday pay, annual leave pay and pro-rate double pay. Since Super Power was insolvent and unable to pay

DIRECTORS AND SENIOR MANAGEMENT

such debts because of financial difficulty, compulsory winding up proceedings were initiated against Super Power upon a petition filed by the Director of Legal Aid acting for and on behalf of the petitioner, an independent third party, to the court on 11 March 1999 seeking a court order to wind up Super Power.

Mr. Law confirmed that there was no wrongful act on his part leading to the dissolution of the above companies and was not aware of any actual or potential claim that had been or would be made against him as a result of the dissolution, and that no misconduct or misfeasance had been involved in the dissolution of the above companies. Save for Super Power, Mr. Law further confirmed that the above companies were solvent immediately prior to their dissolutions.

Saved as disclosed above, Mr. Law did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

SENIOR MANAGEMENT

Mr. Yip Kam Ming (葉金明), aged 35, is the project director of our Group. Mr. Yip has over 11 years of experience in E&M engineering services industry. He joined our Group in May 2006 as an assistant engineer and was subsequently promoted as a project manager. Mr. Yip is responsible for management and technical direction of our Group's projects and overseeing project design, development and overall project performance of our Group.

Mr. Yip graduated from The Hong Kong Polytechnic University with a bachelor's degree of engineering in building services engineering in October 2012.

Mr. Yip did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Mr. Cheung Ting Fun, Andy (張庭勳), aged 33, is the project director of our Group. Mr. Cheung joined our Group in July 2008 as an assistant engineer and was subsequently promoted as a project manager. Mr. Cheung is responsible for management and technical direction of our Group's projects and overseeing project design, development and overall project performance of our Group.

Mr. Cheung graduated from McMaster University in Canada with a bachelor degree of engineering, majoring in mechanical engineering in November 2008. In November 2014, he further obtained a master degree of science in building services engineering from The University of Hong Kong. He has been a member of American Society of Heating Refrigerating and Air-Conditioning Engineers since November 2008.

Mr. Cheung has over 11 years of experience in E&M engineering services industry. Mr. Cheung was an engineering trainee in Honda of Canada from September 2007 to November 2008 prior to joining our Group.

Mr. Cheung did not hold any directorship in any listed company during the three years immediately preceding the date of this prospectus.

Mr. Cheung is the son of Mr. Tony Cheung, our executive Director.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Tang Chi Chiu (鄧志釗), is the company secretary of our Company. Please refer to the paragraph headed “Directors” in this section for his biography.

CORPORATE GOVERNANCE

Our Company will comply with the Corporate Governance Code in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and include our corporate governance report in our annual reports upon Listing. The terms of reference for performing the corporate governance functions in compliance with the Corporate Governance Code were approved by our Board for adoption on 8 June 2018.

COMMITTEES OF THE BOARD OF DIRECTORS

Our Board delegates certain responsibilities to various committees. In accordance with our Articles of Association and the Listing Rules, we have formed three board committees, namely, the audit committee, the remuneration committee and the nomination committee.

Audit Committee

Our Company established the audit committee on 8 June 2018 in compliance with Rule 3.21 of the Listing Rules with written terms of reference the Corporate Governance Code. Our audit committee consists of Mr. Lau Yu Ching, Mr. Pang Kam Fai, Dickson and Mr. Law Chung Lam, Nelson. Mr. Lau Yu Ching is the chairman of our audit committee.

The primary duties of our audit committee include:

- (a) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- (b) reviewing and monitoring the extent of the non-audit work undertaken by external auditors;
- (c) reviewing our annual financial statements, our annual report and accounts and our half-year report and significant financial reporting judgements contained therein; and
- (d) reviewing our financial controls, internal control and risk management systems.

Nomination Committee

Our Company established the nomination committee on 8 June 2018 with written terms of reference in compliance with the Corporate Governance Code. Our nomination committee consists of Mr. Law Chung Lam, Nelson, Mr. Lau Yu Ching, and Mr. Pang Kam Fai, Dickson. Mr. Law Chung Lam, Nelson is the chairman of our nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

The primary duties of our nomination committee include:

- (a) assisting our Board in discharging its responsibilities relating to the composition of our Board;
- (b) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy;
- (c) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships;
- (d) assessing the independence of our independent non-executive Directors; and
- (e) making recommendations to our Board on the appointment and succession planning for our Directors.

Remuneration Committee

Our Company established the remuneration committee on 8 June 2018 in compliance with Rule 3.25 of the Listing Rules with written terms of reference in compliance with the Corporate Governance Code. Our remuneration committee consists of Mr. Pang Kam Fai, Dickson, Mr. Lau Yu Ching and Mr. Law Chung Lam, Nelson. Mr. Pang Kam Fai, Dickson is the chairman of our remuneration committee.

The primary duties of our remuneration committee include:

- (a) making recommendations to our Board on our Company's remuneration policy and structure for all of our Directors and senior management;
- (b) determining the individual remuneration packages of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments; and
- (c) recommending and monitoring the remuneration of senior management below Board level.

COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, we have appointed Messis Capital Limited as our compliance adviser. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser shall advise us in the following circumstances, among others:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated by our Company, including share issues and share repurchases;

DIRECTORS AND SENIOR MANAGEMENT

- (iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of appointment shall commence on the Listing Date and end on the date on which our Company complies with the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of fixed monthly salaries in accordance with their respective employment contracts with our Group, Directors fee, allowance, discretionary bonuses and other benefits as well as contributions to retirement benefit schemes. Our Group also reimburses them for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the business operations.

During the Track Record Period, the remuneration of our Directors and our senior management was determined with reference to their respective experience, responsibilities with our Group and general market conditions. Discretionary bonus (if any) is linked to the performance of our Group and of individual Director or senior management. Our Company intends to continue its remuneration policies after the Listing, subject to the review by and the recommendations of the remuneration committee of our Company.

For FY2015, FY2016 and FY2017, the aggregate amount of remuneration paid or payable by our Group to our Directors was approximately HK\$1.3 million, HK\$4.1 million and HK\$5.1 million, respectively.

For FY2015, FY2016 and FY2017, the aggregate amount of remuneration paid or payable by our Group to our five highest paid individuals (excluding our two, two and three executive Directors who were amongst the five highest paid individuals) was approximately HK\$1.6 million, HK\$1.7 million and HK\$1.1 million, respectively.

Save as disclosed above, no other payments have been paid or are payable by our Group in respect of FY2015, FY2016 and FY2017 to our Directors or the five highest paid individuals of our Group.

It is estimated that, under the arrangements currently in force, the aggregate remuneration (excluding any discretionary bonus) payable by our Group to our Directors for FY2018 and FY2019 will be approximately HK\$4.8 million and HK\$4.8 million, respectively.

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors as an inducement to join or upon joining our Group or as compensation for loss of office. Furthermore, none of our Directors waived or agreed to waive any remuneration.

DIRECTORS AND SENIOR MANAGEMENT

EMPLOYEES' REMUNERATION AND RETIREMENT BENEFIT SCHEMES

Please refer to the paragraph headed “Business — Employees” in this prospectus for details relating to the number of employees, relationship amongst employees, training and recruitment policies measures to prevent us from having illegal workers and remuneration policy of our Group.

Share Option Scheme

We have conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of this scheme are summarised in the paragraph headed “Statutory and General Information — Other information — 12. Share Option Scheme” in Appendix IV to this prospectus.

The maximum number of Shares which may be issued, upon exercise of all options that may be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over Shares or other securities by our Company or any of its subsidiaries or invested entity shall not in aggregate exceed 10% of the number of Shares in issue as of the date of Listing; and the Board has been authorised to determine the grant of a right to subscribe for Shares under, and pursuant to the terms of the Share Option Scheme and to determine the grantees, number of options to be granted to each grantee and the terms and conditions of such grants pursuant to the terms of, the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), the following persons/entities will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of our Company required to be kept under section 336 of the SFO, or who are/will be, directly or indirectly, to be interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

Name	Capacity/ Nature of interest	Number of Shares held/interested immediately after completion of the Share Offer and the Capitalisation Issue <i>(Note 1)</i>	Approximate percentage of interests in our Company immediately after completion of the Share Offer and the Capitalisation Issue
Prime Pinnacle	Beneficial owner <i>(Note 2)</i>	750,000,000	75%
Mr. Tony Cheung <i>(Note 2)</i>	Interest in a controlled corporation	750,000,000	75%
Ms. Chan Ho Fung <i>(Note 3)</i>	Interest of spouse	750,000,000	75%
Mr. Gary Cheung <i>(Note 2)</i>	Interest in a controlled corporation	750,000,000	75%
Ms. Cheng Phyllis Woon Kink <i>(Note 4)</i>	Interest of spouse	750,000,000	75%

Notes:

1. All interests stated are long positions.
2. Prime Pinnacle is beneficially owned as to 51% by Mr. Tony Cheung and 49% by Mr. Gary Cheung. On 12 March 2018, Mr. Tony Cheung and Mr. Gary Cheung entered into the Concert Party Deed to acknowledge and confirm, among other things, that they are parties acting in concert during the Track Record Period and to continue to act in the same manner in our Group upon the Listing. For details, please refer to the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus. By virtue of the SFO, Mr. Tony Cheung and Mr. Gary Cheung are deemed to be interested in the Shares held by Prime Pinnacle.
3. Ms. Chan Ho Fung is Mr. Tony Cheung’s spouse and is deemed to be interested in the Shares in which Mr. Tony Cheung is interested.
4. Ms. Cheng Phyllis Woon Kink is Mr. Gary Cheung’s spouse and is deemed to be interested in the Shares in which Mr. Gary Cheung is interested.

SUBSTANTIAL SHAREHOLDERS

Furthermore, in view of the concert party arrangement among Mr. Tony Cheung and Mr. Gary Cheung, details of which are set out in the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus, Mr. Tony Cheung and Mr. Gary Cheung will, through Prime Pinnacle, control an aggregate of 750,000,000 Shares, representing 75% of the enlarged issued share capital of our Company after the Capitalisation Issue and the Share Offer (taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme). Hence, Mr. Tony Cheung, Mr. Gary Cheung and Prime Pinnacle are a group of Controlling Shareholders within the meaning of the Listing Rules.

Save as disclosed above, our Directors are not aware of any person who will, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), has an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

SHARE CAPITAL OF OUR COMPANY

The following is a description of the authorised and issued share capital of our Company immediately before and following the completion of the Capitalisation Issue and the Share Offer (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme):

<i>Authorised share capital</i>	<i>HK\$</i>
5,000,000,000 Shares of par value HK\$0.01 each	50,000,000
<i>Shares issued and fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer</i>	
200 Shares in issue as at the date of this prospectus	2
749,999,800 Shares to be issued pursuant to the Capitalisation Issue	7,499,998
<u>250,000,000</u> Shares to be issued pursuant to the Share Offer	<u>2,500,000</u>
<u>1,000,000,000</u> Total issued Shares	<u>10,000,000</u>

Assuming the Over-allotment Option is exercised in full, (i) the number of Shares to be issued pursuant to the Share Offer will be 287,500,000 Shares; and (ii) the issued share capital of our Company immediately following completion of the Share Offer will be HK\$10,375,000 divided into 1,037,500,000 Shares.

ASSUMPTIONS

The above table assumes that the Capitalisation Issue and the Share Offer become unconditional and the issue of Shares pursuant thereto are made as described herein. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates given to our Directors to allot and issue or repurchase the Shares as referred to below.

MINIMUM PUBLIC FLOAT

At the time of Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the total issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

RANKING

The Offer Shares are ordinary shares and will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and will qualify in full for all dividends or other distributions declared, made or paid on Shares in respect of a record date which falls after the date of this prospectus, save for entitlements under the Capitalisation Issue.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the fulfilment or waiver (as applicable) of the conditions set out in the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the total number of Shares so allotted and issued or agreed conditionally to be allotted and issued (otherwise than pursuant to a rights issue, scrip dividend scheme or similar arrangement providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or the Capitalisation Issue or the Share Offer, or the exercise of the Over-allotment Option or any options granted or to be granted under the Share Option Scheme, or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by our Company, if any, pursuant to the general mandate to repurchase Shares referred to in the paragraph headed “General mandate to repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held; or
- (c) the date of passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors.

For further details of this general mandate to issue Shares, please refer to the paragraph headed “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 8 June 2018” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the fulfilment or waiver (as applicable) of the conditions set out in the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

SHARE CAPITAL

This mandate to repurchase Shares only relates to repurchases made on the Stock Exchange, or any other exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the paragraph headed “Statutory and General Information — Further information about our Company and its subsidiaries — 6. Repurchase of our own securities” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held; or
- (c) the date of passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors.

For further details of this general mandate to repurchase shares, see the paragraph headed “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 8 June 2018” in Appendix IV to this prospectus.

THE SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Statutory and General Information — Other information — 12. Share Option Scheme” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in our Articles of Association. For details, please refer to Appendix III to this prospectus.

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You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Group's consolidated financial information have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections will depend on a number of risks and uncertainties over which our Group does not have control. For further information, you should refer to the section "Risk Factors" in this prospectus.

OVERVIEW

We are an established HVAC E&M engineering services provider in Hong Kong with a long business history dating back to 1996. We generally focus on servicing new residential property development projects as a first-tier or second-tier subcontractor in Hong Kong. Our HVAC E&M engineering services typically involve installation of HVAC systems, which refers to heat, ventilation and air-conditioning system.

According to the Frost & Sullivan Report, the overall HVAC engineering and services market in Hong Kong is fragmented with the top five players accounting for around 17.9%, while our Group ranked 11 and accounted for approximately 1.6% of the market share in terms of revenue contribution in 2017. On the other hand, the residential HVAC engineering and services market in Hong Kong is considered a concentrated market with the top five players in 2017 constituting approximately 49.4% of the market share in terms of revenue contribution, in which our Group ranked first in 2017 with 12.0% of the market share in terms of revenue contribution.

We are registered as a Registered Electrical Contractor under the EMSD, a minor works contractor (company) of Type A (Classes II and III), Type D (Classes II and III) and Type E (Classes II and III) under the Building Authority and a registered subcontractor under the Subcontractor Registration Scheme operated by the Construction Industry Council. For details of the qualifications of our Group, please refer to the paragraph headed "Business — Licences and permits" in this prospectus. For details of our Group's applicable regulatory requirements in relation to these qualifications, please refer to the section headed "Regulatory Overview" in this prospectus.

We pride ourselves in, and strategise our business around our capability to undertake HVAC E&M engineering works for sizeable residential property development projects, and focus generally on undertaking HVAC E&M engineering projects as a first-tier or second-tier subcontractor. Throughout our long business history, we have completed HVAC E&M engineering works for numerous well-known residential property development projects, and have established business relationships with prominent property developers, construction and HVAC E&M contractors and well-known distributors of major HVAC brands in Hong Kong. Nevertheless, due in part to the specific landscape of the property

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development market in Hong Kong (which is relatively dominated by a limited number of prominent property developers, particularly for sizeable new residential property development projects) and in part to our relatively prolonged project duration, during the Track Record Period, our five (or, in the case of FY2015, three) largest customers accounted for approximately 100.0%, 100.0% and 100.0% of our revenue respectively, whereas our largest customer accounted for approximately 45.6%, 40.8% and 40.4% of our revenue respectively.

During the Track Record Period, we generated all our revenue from the provision of HVAC E&M engineering services for private sector projects, which amounted to approximately HK\$128.0 million, HK\$110.5 million and HK\$125.8 million respectively. We classify private sector projects as projects not being owned or developed by a Government department or a statutory body. During the Track Record Period, we had worked on a total of 41 HVAC E&M engineering projects with a total original contract sum of approximately HK\$573.2 million, among which 13 contracts had been completed. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have been awarded two new projects with total awarded contract sum of approximately HK\$198.3 million and, as at the Latest Practicable Date, we had 30 projects on hand (including contracts in progress as well as contracts that have been awarded to us but not yet commenced) with a total original contract sum of approximately HK\$570.8 million.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected financial information from our consolidated statements of financial position as at 31 December 2015, 2016 and 2017, our consolidated statements of profit and loss and other comprehensive income for the year ended 31 December 2015, 2016 and 2017 and our consolidated statement of cash flows for the years ended 31 December 2015, 2016 and 2017 set forth in this section are derived from the Accountants' Report set out in Appendix I to this prospectus, and should be read in conjunction with the Accountants' Report and with the paragraph headed "Results of operation" in this section below.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

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

Construction activities in Hong Kong

We provide HVAC E&M engineering services in Hong Kong with a general focus on new residential property development projects. Our project size may vary from time to time depending on the size of the corresponding property development project of our customers. During the Track Record Period, we generated all our revenue from the provision of HVAC E&M engineering services for private sector projects, which amounted to approximately HK\$128.0 million, HK\$110.5 million and HK\$125.8 million in FY2015, FY2016 and FY2017, respectively. Changes in construction activities in Hong Kong, particularly in relation to private sector property development, could have significant impact on the demand for our services and, therefore, significant impact on our business and results of operations.

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Subcontracting fees and materials and consumables costs

Our subcontracting fees accounted for approximately 43.3%, 43.7% and 39.5% of our total cost of services during the Track Record Period, while our materials and consumables costs accounted for approximately 35.6%, 28.6% and 37.6% of our total cost of services during the same period. The subcontracting fees and materials and consumables costs may fluctuate after we have secured our projects and may deviate from our initial estimation during tendering stage. In the event that the subcontracting fees or the materials and consumables costs increase unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensation or increase in our project revenue, our financial performance and profitability will be adversely affected.

During the Track Record Period, our materials and consumables costs were principally related to the materials and consumables procured and used by us for our HVAC E&M engineering services. On the other hand, depending on the scale of the project, the specific technicalities required, the required completion timeframe and our manpower availability, we may engage subcontractors to assist us in completing on-site works of a project. Accordingly, our subcontracting fees represented payments to those subcontractors and therefore may vary depending on the size of the project, their required involvement and the complexity of work required.

In pricing a tender, we generally adopt a cost-plus pricing model with mark-up determined on a project-by-project basis. We estimate our costs of undertaking a project with reference to certain factors, such as project size and duration, number and types of subcontractors required, availability and cost of materials and consumables, and technical difficulties and specifications required in the project. The following sensitivity analysis only illustrates the impact of hypothetical fluctuations of our subcontracting fees and materials and consumables costs on our profit after tax during the Track Record Period, assuming all other variables, including our revenue, remained constant. Fluctuations in our subcontracting fees and materials and consumables are assumed to be 3%, 6% and 9%, respectively, which are determined by reference to the relevant historical fluctuations during the Track Record Period.

Hypothetical fluctuations of our subcontracting fees (all other variables remained constant)

	+/- 3%	+/- 6%	+/- 9%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/decrease in subcontracting fees			
FY2015	1,180	2,370	3,550
FY2016	950	1,890	2,840
FY2017	880	1,760	2,630
Decrease/increase in profit after tax			
FY2015	990	1,980	2,960
FY2016	790	1,580	2,370
FY2017	730	1,470	2,200

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Hypothetical fluctuations of our materials and consumables costs (all other variables remained constant)

	+/- 3%	+/- 6%	+/- 9%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/decrease in materials and consumables costs			
FY2015	970	1,950	2,920
FY2016	620	1,240	1,860
FY2017	840	1,670	2,510
Decrease/increase in profit after tax			
FY2015	810	1,630	2,440
FY2016	520	1,040	1,550
FY2017	700	1,390	2,100

Labour costs

During the Track Record Period, our direct labour costs amounted to approximately HK\$16.8 million, HK\$16.9 million and HK\$13.9 million, respectively. Our operating costs and gross profit will be affected by fluctuations of our direct labour costs. The following sensitivity analysis only illustrates the impact of hypothetical fluctuations of our direct labour costs on our profit after tax during the Track Record Period, assuming all other variables, including our revenue, remained constant. Fluctuations in our direct labour costs are assumed to be 3%, 6% and 9%, which are determined by reference to the historical fluctuations in our direct labour costs during the Track Record Period.

Hypothetical fluctuations of our direct labour costs (all other variables remained constant)

	+/- 3%	+/- 6%	+/- 9%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/decrease in direct labour costs			
FY2015	500	1,010	1,510
FY2016	510	1,010	1,520
FY2017	420	840	1,260
Decrease/increase in profit after tax			
FY2015	420	840	1,260
FY2016	430	840	1,270
FY2017	350	700	1,050

Awarding of projects

Our Group's ability to compete for and secure sizeable and profitable projects is one of the main contributors to our success as well as a key to maintaining our profitability. Our HVAC E&M engineering services usually operate on a non-recurring and project-by-project basis. Given we usually

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secure our projects by way of competitive tender, in the event that our Group is unable to be awarded new projects with sufficient amount of contract sum, our revenue and financial performance may be adversely affected.

Labour supply

Our HVAC E&M engineering services involve labour intensive works. The shortage of qualified construction workers and engineering staff may affect our ability to take up projects and to deliver our services on a timely manner and/or with quality as expected by our customers, and may result in delay in completion of our works and/or expose us to claims of liquidated damages which may adversely affect our business and financial performance.

Ability to maintain service standard and work quality, and complete our projects on a timely basis

It is a usual term in the contracts of our HVAC E&M engineering services that we have to provide a defects liability period as part of our quality assurance. If there are quality problems in relation to our services or delay in our projects, we may be subject to fine or penalty. Moreover, service standard and work quality are usually two of the considerations in awarding tenders by our customers. Accordingly, if we are unable to maintain service standard and work quality or to complete our projects on a timely manner, it may negatively affect our ability to compete for and secure new projects, and accordingly our business and financial performance may be adversely affected.

Accuracy in the estimation of time and costs involved in projects when submitting tenders

Our revenue depends on the size and number of projects awarded on project-by-project basis. Our Group needs to estimate the time and costs involved in a project in order to determine a competitive and practicable price in our tender submission. There is no assurance that the actual amount of time and costs incurred for our projects would not exceed our initial estimation during our tender preparation process. The actual amount of time and costs involved in completing a project may be adversely affected by many factors, including (without limitation) weather conditions, unforeseen site conditions, departure of key personnel involved in the project, and other unforeseen problems and circumstances. Any material deviation or inaccurate estimation in the time and costs involved in a project may adversely affect our Group's profit margin and results of operations.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 11 April 2017 as an exempted company with limited liability. Our Company is an investment holding company and has not carried on any business since the date of its incorporation. Our Group is principally engaged in the provision of installation services of heat, ventilation and air-conditioning systems in Hong Kong.

Prior to the incorporation of our Company, our business was carried out by our Operating Subsidiaries, namely Man Tung AC E&M, Man Tung AC Works and Shun Tung, all of which were under the joint control of Mr. Tony Cheung and Mr. Gary Cheung (the “**Cheung's Family**”). We underwent a reorganisation, which was completed on 16 June 2017 and detailed in the section headed “History, Development and Reorganisation” in the prospectus, pursuant to which our Company became the holding company of our Group. As the reorganisation primarily involved only inserting a newly formed entity with no substantive operations as the new holding company between the Cheung's Family

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and the Operating Subsidiaries, there has been no change in the ultimate control and there were no substantive changes in business and operations of the companies now comprising the Group. As the control is not transitory and, consequently, there was a continuation of risks and benefits to the Cheung's Family, our financial information has been prepared and presented using the merger basis of accounting as if our Group has always been in existence.

CRITICAL ACCOUNTING POLICIES

Our financial information has been prepared in accordance with accounting policies which conform with HKFRSs issued by the HKICPA. The preparation of our financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and underlying assumptions are reviewed on an ongoing basis, nevertheless the actual results may differ from these estimates.

The Group early adopted HKFRS 15 with a date of initial application of 1 January 2015. HKFRS 15 establishes a new five-stop model that applies to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. 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 judgments and estimates.

Our significant accounting policies and accounting estimates are set forth in detail in Notes 2 and 3 to our consolidated financial information included in the Accountants' Report in Appendix I to this prospectus. We set forth below the accounting policies, judgements and estimates that we believe are the most critical to our financial information or that involve the most significant judgements and estimates used in the preparation of our financial information.

Revenue recognition

For details, please refer to Note 2(o) headed "Significant accounting policies — (o) Revenue recognition" to the Accountants' Report in Appendix I to this prospectus.

Depreciation of plant and equipment

For details, please refer to Note 2(d) headed "Significant accounting policies — (d) Plant and equipment" to the Accountants' Report in Appendix I to this prospectus.

Engineering service contracts

For details, please refer to Note 2(g) headed "Significant accounting policies — (g) Contracts with customers" to the Accountants' Report in Appendix I to this prospectus.

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Amount due from/to customers for contract work

For details, please refer to Note 2(g) headed “Significant accounting policies — (g) Contracts with customers” to the Accountants’ Report in Appendix I to this prospectus.

Allowance for trade and other receivables

For details, please refer to Note 2(f)(i) headed “Significant accounting policies — (f)(i) Impairment of trade and other receivables” to the Accountants’ Report in Appendix I to this prospectus.

Other significant accounting policies, estimate and judgments

Please refer to Notes 2 and 3 of the Accountants’ Report in Appendix I to this prospectus for other significant accounting policies and estimates applied in preparation of our consolidated financial information.

Early application of HKFRS 15

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting treatment for revenue from construction contracts.

Should HKAS 11 and 18 have been applied in the Track Record Period, the following areas would have been affected:

	Increase/(decrease)		
	2015	2016	2017
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	1,643	(817)	(1,239)
Contract assets	2,303	138	(567)
Contract liabilities	284	(1,050)	(517)
Income tax expenses	271	(134)	(204)
Deferred tax assets	(331)	(197)	7

Contract assets and contract liabilities in the statement of financial position should have been presented as gross amount due from customers for contract work and gross amount due to customers for contract work, respectively, should HKAS 11 have been applied through the Track Record Period.

Taking into account the impact discussed above, we consider that the early adoption of HKFRS 15 did not have significant impact on our financial position and performance during the Track Record Period.

Under HKFRS 15, if control of the goods and services transfers over time, revenue is recognised by reference to the progress toward complete satisfaction of that performance obligation, based on method that best depicts the entity’s performance in satisfying that performance obligation. We determined the use of input method (i.e. contract costs incurred to date as a percentage of total forecast

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costs) best depicts our performance in transferring control of the goods or services to our customers. In particular, HKFRS 15 requires entity applying input method that excludes the effect of any inputs that do not depict its performance in transferring control of goods or services to the customers if an incurred cost is not proportionate to the entity's progress in satisfying the performance obligation such as uninstalled materials. We assessed that the uninstalled materials would not materially affect our Group's measurement of percentage of completion since the ancillary materials consumed during the installation, such as pipes and fittings, are procured over time and shortly before their actual usage. The procurement of HVAC systems is determined as separate performance obligation that is satisfied at a point of time when control of the goods is transferred to the customer.

In addition, we also assessed the use of input method would not significantly affect the timing of revenue recognition when comparing to the output method (i.e. appraisals of results achieved).

In the preparation of our Company's Underlying Financial Statements (as defined in the Accountants' Report in Appendix I to this prospectus), of which the Historical Financial Information (as defined in the Accountants' Report in Appendix I to this prospectus) is based, we elected to early apply HKFRS 15 which has been applied consistently throughout the Track Record Period. The Underlying Financial Statements are our Company's first financial statements since its date of incorporation. Apart from the practical expedient disclosed in Note 4 headed "Revenue and segment information" to the Accountants' Report in Appendix I to this prospectus, no other practical expedient were used.

EFFECT OF THE NEW AND AMENDMENTS TO HKFRSs TO OUR GROUP

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes to the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. Our Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on our Group's financial information are as follows:

(a) *Classification and measurement*

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

Our Group has assessed that our financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

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The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Our Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Based on a preliminary assessment, our Group does not expect the application of the expected credit loss model will result in earlier recognition of credit losses.

HKFRS 16, Leases

As disclosed in Note 2(e) headed “Significant accounting policies — (e) Leased assets” to the Accountants’ Report in Appendix I to this prospectus, currently our Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

As disclosed in Note 23 to the Accountants’ Report in Appendix I to this prospectus, as at 31 December 2017 our Group’s future minimum lease payments under non-cancellable operating leases amounted to HK\$210,000 for properties, all of which is payable within 1 year after the reporting date. Therefore our Group does not expect this new requirement will have any significant impact with the adoption of HKFRS 16.

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RESULTS OF OPERATION

The following table sets out our consolidated statements of profit or loss and other comprehensive income for the periods indicated:

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	128,030	110,467	125,846
Cost of services	<u>(91,121)</u>	<u>(72,294)</u>	<u>(74,120)</u>
Gross profit	36,909	38,173	51,726
Other income	1,530	1,495	826
Administrative expenses	(13,006)	(17,850)	(19,624)
Listing expenses	—	—	(3,872)
Finance costs	<u>(548)</u>	<u>(537)</u>	<u>(322)</u>
Profit before taxation	24,885	21,281	28,734
Income tax	<u>(4,169)</u>	<u>(3,578)</u>	<u>(5,330)</u>
Profit and total comprehensive income for the year	<u><u>20,716</u></u>	<u><u>17,703</u></u>	<u><u>23,404</u></u>

DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED INCOME STATEMENT

Revenue

Our revenue from HVAC E&M engineering services accounted for all of our revenue during the Track Record Period and was primarily related to the installation of HVAC systems in Hong Kong. Our revenue is primarily driven by the number, size and types of project involved, nature of services provided and stage of completion of the projects which affect the timing of recognition of our revenue. Since we secure our projects mostly through competitive tendering, our tender strategy and tender performance may therefore affect our financial performance. Upon our tender submission, it would be subject to our customers' decision as to whether we are awarded with the corresponding projects.

Our revenue is recognised based on the percentage of completion method, measured with reference to contract costs to date as a percentage of our budgeted costs of our projects. On the other hand, our Group makes progress payment application to our customer on a monthly basis, which sets out the amount and value of work done based on the amount of work completed by us in the preceding month. Upon receiving the progress payment application, our customers or their authorised representatives will examine the portion of work completed and would issue a payment certificate to us within 30 days after the examination in general. The typical credit terms stipulated in our contracts during the Track Record Period ranged from 30 to 45 days from the issue of payment certificate.

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Our Group generally adopts a cost-plus pricing model in setting our tender price for our tender submission. For details of our pricing strategy, please refer to the paragraph headed “Business — Customers — Pricing strategy” in this prospectus.

During the Track Record Period, we were generally engaged as a subcontractor to provide HVAC systems installation services, which, depending on specific contract terms, may include procurement of HVAC systems to be installed by us as part of our contract performance. In some cases, our customers may demand additions and/or modifications on our scope of work which we may carry out with time and cost implication and recognise those amendments to the original contractual terms as variation orders. Revenue associated with variation orders are typically ascertained by way of payment certificates. Further details on variation orders are described in the paragraph headed “Business — Operational workflow — Implementation phase — Variation orders” in this prospectus. The following table sets forth the breakdown of our Group’s revenue by types of services during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Installation services only	97,457	76.1	89,790	81.3	87,216	69.3
Installation services with HVAC systems procurement	<u>30,573</u>	<u>23.9</u>	<u>20,677</u>	<u>18.7</u>	<u>38,630</u>	<u>30.7</u>
Total	<u><u>128,030</u></u>	<u><u>100</u></u>	<u><u>110,467</u></u>	<u><u>100</u></u>	<u><u>125,846</u></u>	<u><u>100</u></u>

Out of our total revenue recognised during the Track Record Period, revenue associated with variation orders amounted to approximately HK\$4.3 million, HK\$2.4 million and HK\$15.7 million, representing approximately 3.4%, 2.2% and 12.5% of our total revenue for FY2015, FY2016 and FY2017 respectively.

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Key projects during the Track Record Period

Set out below is a summary of sizeable projects (with contract sum over HK\$10 million) we worked on during the Track Record Period, which contributed to approximately HK\$292.0 million of our revenue in aggregate during the Track Record Period:

Project code	Customer	Contract sum (Note 1)	Revenue recognised during the Track Record Period			Total revenue recognised during the Track Record Period	Status as at 31 December 2017
			FY2015	FY2016	FY2017		
			HK\$'000	HK\$'000	HK\$'000		
MT14	Alpha Appliances Ltd. (“Alpha Appliances”)	42,126	16,087	23,113	9,667	48,867	Ongoing
MT12	Customer B	36,420	23,956	5,064	1,371	30,391	Completed
MTW2	Customer D	32,413	—	544	15,234	15,778	Ongoing
STP17008	Lik Kai Engineering Company Limited (“Lik Kai”)	32,280	—	1	178	179	Ongoing
MT8	Alpha Appliances	29,392	3,786	1,516	4,120	9,422	Completed
MT9	Alpha Appliances	28,630	16,687	4,485	1,866	23,038	Completed
STP16007	Lik Kai	25,192	—	—	6,211	6,211	Ongoing
MTW3	Wing Shing Air-conditioning Engineering Ltd. (“Wing Shing”)	23,035	—	—	2,573	2,573	Ongoing
STP14001-1	Lik Kai	22,519	18,641	1,710	3,200	23,551	Completed
STP15004	Lik Kai	22,100	147	11,392	11,360	22,899	Ongoing
MT15	Alpha Appliances	21,926	5,350	14,503	2,073	21,926	Completed
MT10	Alpha Appliances	19,373	10,936	982	393	12,311	Ongoing
STP16002	Lik Kai	16,800	—	1,051	11,181	12,232	Ongoing
MTW4	Wing Shing	16,429	—	—	8,526	8,526	Ongoing
MT19	Customer B	14,660	—	—	3,002	3,002	Ongoing
STP16001	Customer B	12,880	—	299	8,698	8,997	Ongoing
MT16	Customer B	12,484	3,006	7,671	1,536	12,213	Completed
MT7	Alpha Appliances	12,300	1,426	2	1,084	2,512	Completed
STP16008	Lik Kai	11,488	—	—	4,329	4,329	Ongoing
MT18	Customer B	10,700	—	498	6,722	7,220	Ongoing
STP15003	Customer B	10,680	743	9,572	853	11,168	Ongoing
MT13	Alpha Appliances	10,233	3,244	81	1,371	4,696	Completed
STP17003	Lik Kai	13,080	—	—	negligible	negligible	Ongoing
MT21	Customer G	18,800	—	—	—	—	Ongoing
Total			104,009	82,484	105,548	292,041	

Note:

- Contract sum represents the original contract sum as agreed between the parties and excludes any subsequent additions or modifications arising from variation orders or contract price adjustments, and as such the final revenue recognised from a project may differ from the original contract sum.

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Cost of services

The table below sets forth a breakdown of our cost of services by nature and percentage contribution to total cost of services for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Subcontracting fees	39,498	43.3	31,582	43.7	29,276	39.5
Materials and consumables	32,473	35.6	20,711	28.6	27,837	37.6
Direct labour	16,831	18.5	16,915	23.4	13,945	18.8
Others	<u>2,319</u>	<u>2.6</u>	<u>3,086</u>	<u>4.3</u>	<u>3,062</u>	<u>4.1</u>
 Total	 <u><u>91,121</u></u>	 <u><u>100</u></u>	 <u><u>72,294</u></u>	 <u><u>100</u></u>	 <u><u>74,120</u></u>	 <u><u>100</u></u>

During the Track Record Period, our suppliers mainly included: (i) suppliers of materials such as HVAC systems and other ancillary consumables such as pipes and fittings; and (ii) subcontractors we engaged to assist us in completing on-site works. During the Track Record Period, we did not enter into any long-term supply agreements with our suppliers, and our suppliers were all located in Hong Kong and all our purchases were denominated in Hong Kong dollars.

Subcontracting fees

The largest component of our cost of services was subcontracting fees, which amounted to approximately HK\$39.5 million, HK\$31.6 million and HK\$29.3 million, representing approximately 43.3%, 43.7% and 39.5% of our total cost of services for FY2015, FY2016 and FY2017, respectively. Subcontracting fees represent fees paid to our subcontractors engaged to assist us in completing on-site works of our projects. Our subcontracting fees incurred for a particular project in a given period may vary depending on the scope and amount of labour work required and the stage of construction of the project. During the Track Record Period, our subcontracting fees as a percentage of our total cost of services fluctuated within approximately four percentage points, which we consider to be within a reasonable range having considered the varying stages and progress and the differing scale of projects we worked on during each of FY2015, FY2016 and FY2017.

Materials and consumables

Materials and consumables costs accounted for the second largest component of our cost of services. For FY2015, FY2016, and FY2017, materials and consumables costs were approximately HK\$32.5 million, HK\$20.7 million and HK\$27.8 million respectively, representing approximately 35.6%, 28.6% and 37.6% of our total cost of services, respectively. Our materials and consumables costs were principally related to HVAC systems and other ancillary materials such as pipes and fittings procured and used in our projects. We generally place orders for the major materials and consumables used in our projects according to the respective work plans and schedules to better manage the timeliness of their deliveries with our actual installation and application schedules. As such, they are typically applied on-site for our installation work shortly after their deliveries and therefore we do not maintain inventory for our business operations.

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The table below sets forth the breakdown of our Group's materials and consumables costs for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
HVAC systems	13,094	40.3	5,934	28.7	14,101	50.7
Other materials and consumables	<u>19,379</u>	<u>59.7</u>	<u>14,777</u>	<u>71.3</u>	<u>13,736</u>	<u>49.3</u>
	<u><u>32,473</u></u>	<u><u>100</u></u>	<u><u>20,711</u></u>	<u><u>100</u></u>	<u><u>27,837</u></u>	<u><u>100</u></u>

Cost of HVAC systems amounted to approximately HK\$13.1 million, HK\$5.9 million and HK\$14.1 million, representing approximately 40.3%, 28.7% and 50.7% of the total cost of materials and consumables for FY2015, FY2016 and FY2017, respectively. The significantly lower cost of HVAC systems incurred for FY2016 was mainly because we generated less revenue from projects which we were required to procure HVAC systems for our customers during the year and accordingly, we purchased less HVAC systems which led to a decrease in our cost of HVAC systems.

Cost of other materials and consumables amounted to approximately HK\$19.4 million, HK\$14.8 million and HK\$13.7 million, representing approximately 59.7%, 71.3% and 49.3% of the total cost of materials and consumables for FY2015, FY2016 and FY2017, respectively. The decreasing trend of other materials and consumables costs during the Track Record Period was broadly in line with the fluctuation in the revenue attributed to our Group's installation services (excluding portion of contract sum recognised as revenue attributed to HVAC systems procurement and revenue arising from variation orders).

Direct labour

Our direct labour costs principally represented our staff costs attributable to the staff of the project team who are directly involved in the provision of our Group's services. For FY2015, FY2016, and FY2017, direct labour costs amounted to approximately HK\$16.8 million, HK\$16.9 million and HK\$13.9 million, representing approximately 18.5%, 23.4% and 18.8% of our total cost of services, respectively. The direct labour costs as a percentage of total cost of services increased from FY2015 to FY2016, mainly due to the overall decrease in materials and consumables and the corresponding percentage of total cost of services for the year. Our direct labour costs decreased by approximately HK\$2.9 million, or 17.6% from approximately HK\$16.9 million for FY2016 to HK\$13.9 million for FY2017, mainly because we involved less of our own labour resources in carrying out our works in FY2017 according to the actual stages and progress of the projects.

Others

Others costs mainly consisted of site management fees and motor vehicles expenses, which amounted to, in aggregate, approximately HK\$2.3 million, HK\$3.1 million and HK\$3.1 million for FY2015, FY2016 and FY2017, respectively.

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Gross Profit and gross profit margin

For FY2015, FY2016 and FY2017, our gross profit was approximately HK\$36.9 million, HK\$38.2 million and HK\$51.7 million, and our gross profit margins were approximately 28.8%, 34.6% and 41.1%, respectively. Our gross profit margin varies from project to project and depends on a number of factors, including but not limited to the nature of services to be provided (in particular whether procurement of HVAC systems is required), our tender strategy (which affects our targeted profit margin), the extent of use of subcontracting services, labour and materials requirements, project size and durations, etc. which, depending on the stage of completion of the projects we worked on, the amount of work performed and the corresponding portion of revenue recognised in a given year, may lead to fluctuations in our overall profit margin. Our profit margin is also affected by the amount of variation orders certified by our customers and the timing of their certification from year to year, which tend to commence after the bulk of our works done under the relevant original contracts are certified and more commonly close to or after practical completion of the relevant projects.

The following table sets forth the breakdown of our gross profit and gross profit margin by type of services for the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Installation services only	29,286	30.0	32,711	36.4	42,749	49.0
Installation services with HVAC systems procurement	7,623	24.9	5,462	26.4	8,977	23.2
Total	36,909	28.8	38,173	34.6	51,726	41.1

Gross profit margin for installation services only increased from approximately 30.0% for FY2015 to approximately 36.4% for FY2016 partly as a result of the varying gross margin of individual projects and their respective execution progress which affected the amount of their corresponding revenue being recognised in the particular financial year. More specifically, we recognised a higher percentage contract revenue for a number of lower margin projects in FY2015, where for FY2016 a higher percentage contract revenue for certain higher margin projects were being recognised, which resulted in a higher average gross profit margin for installation services only projects in FY2016 compared to FY2015. On the other hand, the further increase in gross profit margin to 49.0% for FY2017 mainly resulted from the recognition of a comparably larger amount of variation orders for installation services only type of projects.

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Other income

Our other income mainly consisted of (i) gain on disposal of motor vehicles and (ii) other services income, which principally included repairing services and gains on indent sales of HVAC systems recognised during the Track Record Period. For FY2015, FY2016 and FY2017, our other income amounted to approximately HK\$1.5 million, HK\$1.5 million and HK\$0.8 million respectively.

Administrative expenses

Administrative expenses mainly comprised of staff costs, rent and rates, meals and entertainment expenses, depreciation expenses, transportation expenses and others. The following table sets forth the breakdown of administrative expenses during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs	7,963	11,205	14,291
Transportation	759	1,023	1,210
Meals and entertainment	793	1,051	915
Depreciation	1,088	1,173	795
Legal and professional fees	474	224	595
Rent and rates	318	1,005	420
Repairs and maintenance	409	216	230
Insurance	492	262	173
Utilities and telecommunication	109	183	162
Tax penalty	—	754	—
Others	601	754	833
	<u>13,006</u>	<u>17,850</u>	<u>19,624</u>

For FY2015, FY2016 and FY2017, administrative expenses represented approximately 10.2%, 16.2% and 15.6% of our revenue, respectively. Staff costs, including compensation and benefits provided to our management team and back office personnel as well as directors' emoluments, accounted for the largest portion of our administrative expenses which represented approximately 61.2%, 62.8% and 72.8% of our administrative expenses for FY2015, FY2016 and FY2017, respectively. Depreciation expenses for our motor vehicles, office equipment and leasehold improvements, which are not directly related to our projects, are recognised as administrative expenses. Transportation expenses mainly represented motor vehicles expenses, fuel costs and vehicle registration and licence fees. Legal and professional fees primarily related to fees paid to corporate services consultants, legal and accounting professionals in the ordinary course of our business.

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Tax penalty, reasons and particulars of the tax incident

We incurred tax penalty of approximately HK\$754,000 during FY2016, primarily as a result of certain errors in the statutory financial statements of our Operating Subsidiaries for the two years ended 31 December 2014 and 2015 which we identified during the course of preparing our statutory audit for FY2016.

Background of the tax incident

During the two years ended 31 December 2014 and 2015, our Operating Subsidiaries prepared their respective statutory financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard issued by HKICPA. Those statutory financial statements were audited by their respective statutory auditors who expressed unqualified audit opinion on each of the statutory financial statements concerned.

In preparation for the Listing, our Group employed Mr. Tang Chi Chiu (“**Mr. Tang**”), a certified public accountant, in January 2017 as our chief financial officer to oversee, among other areas, our Group’s accounting and financial reporting functions. (Please refer to the section headed “Directors and Senior Management” in this prospectus for the biography of Mr. Tang.) Under the supervision and guidance of Mr. Tang, our Operating Subsidiaries prepared its statutory financial statements for FY2016 in accordance with HKFRSs. We also engaged a new statutory auditor for the statutory audit of our Operating Subsidiaries for FY2016.

In the course of preparing for the statutory audit of our Operating Subsidiaries for FY2016, Mr. Tang conducted a review on the historical financial statements and accounting records of our Operating Subsidiaries. It was then noted that while our Operating Subsidiaries adopted the “percentage-of-completion method” to determine the amount of revenue (and the associated contract costs) to be recognised for a given period, the contract revenue and the associated contract costs recognised prior to 2016 were not in full compliance with the relevant provisions under HKFRSs. More specifically, revenue and associated contract costs were recognised either with reference to actual progress billings or payment certificates from customers (where available), or by management’s estimate on the project progress instead of ascertaining the actual stage of completion as required by HKAS 11, which resulted in a “lag-behind” of recognition of contract revenue and costs to the corresponding periods. It was found that if “percentage-of-completion method” was applied accurately in full compliance with the relevant provisions of HKFRSs, the assessable profits of our Operating Subsidiaries for each of the two years ended 31 December 2014 and 2015 were understated, in aggregate, by approximately HK\$20.3 million and HK\$14.4 million respectively, in the corresponding tax returns filed to the Inland Revenue Department of Hong Kong (the “**IRD**”).

According to the Hong Kong Accounting Standard 11 — Construction Contracts (“**HKAS 11**”), revenue recognition on a construction contract is dependent on estimation of the total outcome of the construction contracts, as well as the work done to date. When the outcome of a construction contract can be estimated reliably, contract revenue and the associated contract costs will be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. Significant judgment is required in estimating the contract revenue, contract costs, variation works and provision for claims which have an impact on the percentage of completion of contracts and profit or loss recognised.

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It was noted that the understated amounts of assessable profits as identified were primarily timing difference in nature and were resulting from the lack of professional trainings and experiences of our accounting personnel, historically before our employment of Mr. Tang to lead our Group's accounting and financial reporting functions, to accurately apply the "percentage-of-completion method" in full compliance with the relevant provisions of HKFRSs. Following discussions with the new statutory auditor of our Operating Subsidiaries, prior year adjustments including:

- (a) timing differences on the contract revenue recognised during the two years ended 31 December 2014 and 2015 which principally arose from the "lag-behind" of recognition of contract revenue and costs to the corresponding periods as discussed in the preceding paragraphs;
- (b) timing differences on the contract costs recognised during the two years ended 31 December 2014 and 2015 which again arose principally from the "lag-behind" of recognition of contract revenue and costs to the corresponding periods as discussed in the preceding paragraphs;
- (c) re-calculation of depreciation of property, plant and equipment, interest on bank borrowings and interest on finance lease which was mainly resulted from accounting errors due to the lack of professional trainings and experiences of our accounting personnel prior to Mr. Tang's employment; and
- (d) re-classification of certain revenue and costs to other income and administrative expenses which was mainly resulted from accounting errors due to the lack of professional trainings and experiences of our accounting personnel prior to Mr. Tang's employment;

were made to the statutory audited financial statements of our Operating Subsidiaries for FY2016 and to reflect the rectified financial figures for the two years ended 31 December 2014 and 2015.

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A summary of the nature and amounts of accounting adjustments made to the financial statements of our Operating Subsidiaries for the two years ended 31 December 2014 and 2015 are as follows:

	Shun Tung			Man Tung AC Works			Man Tung AC E&M						
	Retained earnings as at 1 Jan 2014	Profit for the year ended 31 Dec 2014	Retained earnings as at 31 Dec 2014	Retained earnings as at 1 Jan 2014	Profit for the year ended 31 Dec 2014	Retained earnings as at 31 Dec 2014	Retained earnings as at 1 Jan 2014	Profit for the year ended 31 Dec 2014	Retained earnings as at 31 Dec 2014				
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$				
As previously reported in the financial statements:	(6,197,902)	7,470,530	1,272,628	146,388	245	146,633	5,823,191	1,969,824 [#]	72,528	53,398	125,926	430,187	556,113
Nature and effects of the accounting adjustments:													
(a) Errors have been discovered for the recognition of revenue, costs and expenses due to improperly adopt relevant accounting policies													
— Impact on revenue	—	9,315,614	9,315,614	—	14,672,244	14,672,244	679,824	15,352,068	—	24,370,091	24,370,091	(8,735,762)	15,634,329
— Impact on direct costs	—	—	—	—	(3,385,931)	(3,385,931)	10,265,881	6,879,950	—	(24,370,091)	(24,370,091)	8,223,278	(16,146,813)
— Impact on other revenue	—	—	—	—	—	—	447,781	447,781	—	—	—	—	—
— Impact on administrative expenses	—	609	609	—	—	—	(1,464,702)	(1,464,702)	—	—	—	—	—
— Impact on finance costs	—	(31,560)	(31,560)	—	—	—	3,564	3,564	—	—	—	—	—
	—	9,284,663	9,284,663	146,388	11,286,313	11,286,313	9,932,348	21,218,661	—	—	—	(512,484)	(512,484)
(b) Income tax expenses, income tax payables and deferred tax liabilities have been amended to address the adjustments made above and correction of calculation errors made previously	—	(1,575,141)	(1,575,141)	—	(1,862,242)	(1,862,242)	(1,638,836)	(3,501,078)	—	—	—	—	—
As restated on the rectified accounts	(6,197,902)	15,180,052	8,982,150	146,388	9,424,316	9,570,704	14,116,703	19,687,407	72,528	53,398	125,926	(82,297)	43,629

* Shun Tung distributed dividend of HK\$5,458,313 during FY2015.

Man Tung AC Works distributed dividend of HK\$4,000,000 during FY2015.

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Rectifications and remedial actions

In order to ensure the abovementioned tax incident was rectified and handled appropriately and professionally, we have engaged the Tax Adviser to provide us with appropriate tax advices and recommend rectification actions, and to act as our Hong Kong tax representative and our channel of communication with the IRD to handle the said taxation matters. In this connection, the Tax Adviser has reviewed the prior years' tax filing records of our Operating Subsidiaries for the years of assessment of 2014/15 and 2015/16, including its respective profits tax returns, profit tax computations, notices of assessment and the unqualified financial statements for FY2016 with restated financial statements for the two years ended 31 December 2014 and 2015.

With the assistance of the Tax Adviser, following completion of the statutory audit of our Operating Subsidiaries for FY2016, we forthwith made a voluntary disclosure by notifying the IRD of the prior year adjustments and rectified financial figures in writing and submitting the 2016/17 profits tax return and tax computation (with the inclusion of tax adjustments for the years of assessment 2014/15 and 2015/16) in July 2017. The IRD issued notices of additional assessments in September 2017 for additional tax payable of approximately HK\$2.2 million in aggregate for Shun Tung and HK\$3.5 million in aggregate for Man Tung AC Works in respect of the years of assessment 2014/15 and 2015/16, which were fully settled by Shun Tung and Man Tung AC Works in October 2017.

In conjunction with the aforesaid voluntary disclosure, Shun Tung and Man Tung AC Works also proposed, on a without prejudice basis, compound offer penalties in the amount of approximately HK\$313,000 and HK\$441,000 respectively, calculated at 8% of the tax undercharged, the judgment interest rate and compounded annually, to the IRD according to Section 80(5) of the Inland Revenue Ordinance (the "IRO") for the full and final settlement of any actions that may be taken by the IRD against Shun Tung and Man Tung AC Works under Part XIV of the IRO. The proposed compound offer penalties were accepted by the IRD by its letters issued in December 2017 and January 2018 and were fully settled by Shun Tung and Man Tung AC Works accordingly (which gave rise to our reported tax penalties in FY2016). As advised by our Tax Adviser, all relevant matters relating to the abovementioned tax incident has become final and conclusive and no further proceeding will be taken against Shun Tung and Man Tung AC Works under the IRO regarding the abovementioned tax incident.

As advised by the Tax Adviser, after the prior year adjustments being made to the statutory audited financial statements of our Operating Subsidiaries, the impact on our Operating Subsidiaries' financial performance as a result of recognising project revenue and associated costs in full compliance with the relevant provisions under HKFRSs on our Operating Subsidiaries' financial performance prior to the year ended 31 December 2014 has been fully reflected in their restated retained earnings as at 31 December 2014 (and 1 January 2015). The difference of the retained earnings as at 31 December 2014 (i.e. profit after tax accumulated from the date of incorporation to 31 December 2014) arising as a result of correctly applying the relevant provisions under the HKFRSs for revenue recognition has been properly reflected in the respective Operating Subsidiaries' retrospective restatement items for the year of assessment 2014/15. Any prior year recognition errors for the year of assessment 2013/14 (i.e. for the year ended 31 December 2013) and before has already been included and offered for tax in the year of assessment 2014/15. In addition, Mr. Tang also reviewed our accounting records since 1 January 2015 and up to the Latest Practicable Date and found that the amount of contract revenue (and the associated contract costs) for our projects have been properly recognised in accordance with HKFRSs and no similar timing difference errors were identified.

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In order to prevent the reoccurrence of similar incidents, we have adopted the following measures: (a) Mr. Tang will oversee our Group's accounting and financial reporting functions and to ensure the adoption of proper accounting policies; (b) Mr. Tang shall review the monthly management accounts prepared by our accounting team and supervise the preparation of financial statements of our Group to ensure that they are prepared in accordance with HKFRSs, which will then be reviewed and approved by our Board; (c) Mr. Tang will also be responsible for reviewing the tax returns filing to the IRD; and (d) if necessary, the Tax Adviser will be consulted to ensure tax related laws and requirements are complied with.

Tax advice and indemnity

In connection with our historical tax incident and our rectifications and remedial actions, our Tax Adviser advised that:

- If a person commits an offence pursuant to Section 80(2) of the IRO, such person is liable on conviction to a fine at level 3 (i.e. HK\$10,000) and a further fine of three times the amount of tax which has been undercharged as a consequence. Further, pursuant to Section 82A of the IRO, if no prosecution under Section 80(2) of the IRO has been instituted in respect of the same fact, the person is liable to be assessed under such section to additional tax of an amount not exceeding three times the amount of tax which has been undercharged. Under IRD's prevailing practice, offences which do not involve any wilful intent to evade tax are generally dealt with administratively by the imposition of monetary penalties in the form of additional tax under Section 82A of the IRO.
- From a Hong Kong Profits Tax perspective, pursuant to the IRD's Departmental Interpretation and Practice Notes No. 1 (Revised) ("**DIPN 1**"), it is IRD's practice to ascertain the tax position in accordance with established accounting principles, including HKAS 11 (Construction Contracts). DIPN 1 also mentioned that "HKAS 11 does not adopt the realisation or completion of contract method which recognises profits only when a contract is completed. Profits recognised in the financial statements of an accounting year under the percentage of completion method should be adopted for tax purposes for that year. If financial statements are prepared using this method, profits must not be excluded from assessment by way of a computational adjustment on the ground that the profits are not assessable until the entire contract is completed."
- Given the tax incident primarily resulted from the lack of professional trainings and experiences of our accounting personnel historically to accurately apply the "percentage-of-completion method" in full compliance with the relevant provisions of HKFRSs, such mistake was neither deliberate nor intentional. In addition, our Operating Subsidiaries have performed their Hong Kong profits tax filings during the respective years of assessment based on the original unqualified audited financial statements, which were believed to be correct at that point in time. In this respect, "Notices of assessment"/"Statements of loss" were issued by IRD in accordance with the profits tax returns filed under IRD's assessing programme of "Assess First Audit Later". On the other hand, upon approval of the statutory audited financial statements for FY2016 (with prior year adjustments made), our Operating Subsidiaries immediately submitted the 2016/17 profits tax return and tax computation (with inclusion of tax adjustments for the years of assessment 2014/15 and 2015/16) and informed

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IRD for the additional assessable profits without any delay. In view of the above, our Operating Subsidiaries have no wilful intention to evade tax in Hong Kong, and the Tax Adviser is of the view that the IRD will unlikely institute criminal prosecution against our Operating Subsidiaries, their directors or shareholders.

- Moreover, since the IRD has accepted the proposal of compound offer penalties for the Operating Subsidiaries by issuing official letters, and the relevant Operating Subsidiaries have duly settled the penalties, the tax incident relating to prior year adjustments has become final and conclusive, and no further proceeding would be taken against our Operating Subsidiaries under the IRO regarding the tax incident. The Tax Adviser is of the view that except as noted above, there are no other legal consequences for our Operating Subsidiaries and their respective directors arising from the tax incident.
- The difference of the retained earnings as at 31 December 2014 (i.e. profits after tax accumulated from the date of incorporation to 31 December 2014) arising as a result of correctly applying the relevant provisions under the HKFRSs for revenue recognition has been properly reflected in the respective Operating Subsidiaries' retrospective restatement items for the year of assessment 2014/15. Any prior year recognition errors for the year of assessment 2013/14 (i.e. for the year ended 31 December 2013) and before has already been included and offered for tax in the year of assessment 2014/15.

Based on the tax opinion given by the Tax Adviser, our management considered that the likelihood of other legal consequences or criminal prosecution against our Group and our Directors was remote and hence no provision has been made to the financial information of our Group for the Track Record Period.

Furthermore, our Controlling Shareholders have entered into the Deed of Indemnity in favour of us to provide indemnities on a joint and several basis in respect of, among other things, any taxation falling on any member of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received or entered into (or deemed to be so earned, accrued, received or entered into) on or before the Listing Date or any event or transaction on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company. For detailed terms of the Deed of Indemnity, please refer to the paragraph headed "Statutory and General Information — Other information — 13. Tax and other indemnities" in Appendix IV to this prospectus.

Views of our Directors, Internal Control Adviser and the Sole Sponsor

Our Internal Control Adviser, an independent third party, has reviewed the relevant internal control policy and is satisfied that our Group has effective control measures to ensure ongoing compliance with the financial reporting standards, the IRO and other relevant rules and regulations.

Having considered (i) the nature of the tax incident and the rectifications and remedial actions taken; (ii) the basis of the views of the Tax Adviser and the Internal Control Adviser; and (iii) the internal control policies and measures adopted and implemented by us, our Directors are of the view, and the Sole Sponsor concurs with their view, that the tax incident will not affect the suitability of our Directors to act as directors of our Company under Rules 3.08 and 3.09 of the Listing Rules, nor our Company's suitability of listing under Rule 8.04 of the Listing Rules.

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Finance Costs

Our finance costs mainly represented interest expenses on bank loans and overdrafts and finance charges on obligations under finance leases. The table below sets forth a breakdown of our finance costs during the Track Record Period:

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	499	442	265
Finance charges on obligations under finance leases	49	95	57
	548	537	322

Income Tax Expenses

All of our Group's revenue during the Track Record Period was derived in Hong Kong, and our Group was subject to profits tax in Hong Kong. Provision for Hong Kong profits tax is provided at the statutory profits tax rate of 16.5% of the estimated assessable profits for the Track Record Period. The income tax expense of our Group for FY2015, FY2016 and FY2017 were approximately HK\$4.2 million, HK\$3.6 million and HK\$5.3 million respectively, and our effective tax rate was approximately 16.8%, 16.8% and 18.5% respectively. Our Group's income tax expense during the Track Record Period is set forth below:

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax:			
Current tax	4,369	3,985	4,676
Deferred tax	(200)	(407)	654
	4,169	3,578	5,330

Profit for the year

As a result of the foregoing, we recorded profit and total comprehensive income for the year of approximately HK\$20.7 million, HK\$17.7 million and HK\$23.4 million for FY2015, FY2016 and FY2017, respectively.

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REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Revenue recognition for our projects is cyclical in nature and varies depending on the duration of the projects, the amount of work completed during a given year and the amount of variation orders certified by our customers during a given year. We recognise project revenue based on the percentage of completion method, measured with reference to contract costs to date as a percentage of our budgeted costs of our projects. Therefore, we generally recognise the most significant portion of project revenue during the implementation phase for a project where costs are materially incurred and substantial execution and site work are performed for that particular project. Additionally, given our customers' practices in certifying payments for our variation orders (please refer to the paragraph headed "Business — Operational workflow — Implementation phase — Variation orders" in this prospectus for further details), significant additional revenue may be recognised in a given year based on the progress of payment certifications from our customers.

Our revenue increased by approximately HK\$15.4 million or 13.9%, from approximately HK\$110.5 million for FY2016 to approximately HK\$125.8 million for FY2017. Such increase mainly resulted from (i) a significant portion of revenue associated with certain large scale projects, including MTW2, STP15004, STP16002, MTW4, MT14 and STP16001, which together amounted to approximately HK\$64.7 million was recognised in FY2017 as significant portion of works of these projects were completed and/or carried out during the year; and (ii) we recognised a significantly larger amount of revenue from variation orders (of approximately HK\$15.7 million) in FY2017 compared to that of FY2016 (of approximately HK\$2.4 million), representing a year-on-year increase of approximately HK\$13.3 million, as variation orders in respect of a few large scale projects involving extensive additions and modification of works, including (without limitation) STP15004 and MT14 (both of which were close to issuance of practical completion certificate as at the Latest Practicable Date), STP14001 and MT8, were successfully certified by our customers and recognised as revenue in FY2017 which in aggregate amounted to over HK\$12.0 million.

Cost of services

Our cost of services increased from approximately HK\$72.3 million for FY2016 to approximately HK\$74.1 million for FY2017, representing an increase of approximately HK\$1.8 million or approximately 2.5%. While overall cost of services remained relatively stable, the percentage contribution from materials and consumables was comparably higher in FY2017, while the percentages of contribution from subcontracting charges and labour costs were comparably higher in FY2016 mainly because we performed more work, and accordingly recognised more contract revenue, on projects requiring procurement of HVAC systems in FY2017.

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Gross profit and gross profit margin

Our gross profit increased from approximately HK\$38.2 million for FY2016 to approximately HK\$51.7 million for FY2017, represented an increase of approximately HK\$13.6 million or approximately 35.5%. Overall gross profit margin increased from approximately 34.6% for FY2016 to approximately 41.1% for FY2017.

The higher gross profit margin for FY2017 was partly attributable to the significant increase in revenue associated with variation orders from approximately HK\$2.4 million for FY2016 to approximately HK\$15.7 million for FY2017, which accounted for approximately 12.5% of the total revenue for FY2017. As explained in the paragraph headed “Business — Operational workflow — Implementation phase — Variation orders” in this prospectus, we carry out additional and/or modification works under variation orders as needed from our customers according to their requested time frame with time and cost implication. However, the amount of compensation (i.e. fees and charges) that we may receive from our works done under these variation orders needs to be negotiated with, determined and agreed by our customers, as ascertained and evidenced by payment certificates which are issued more commonly close to or after practical completion of the project, resulting in period-to-period fluctuations on our overall gross profit margin.

Other income

Other income for FY2016 and FY2017 amounted to approximately HK\$1.5 million and HK\$0.8 million respectively. The decrease in other income by approximately HK\$0.7 million for FY2017 was mainly attributable to the one-off gain on disposal of plant and equipment of approximately HK\$0.3 million recorded in FY2016 and the decreased in other service income of approximately HK\$0.3 million in FY2017.

Administrative expenses

Administrative expenses for FY2016 and FY2017 amounted to approximately HK\$17.9 million and HK\$19.6 million respectively. The increase in administrative expenses by approximately HK\$1.8 million or approximately 9.9% for FY2017 was mainly due to the increase in staff costs, including Directors’ emoluments, of approximately HK\$3.1 million, which was partially offset by (i) the obliterated non-recurrent tax penalty of approximately HK\$0.8 million which we recognised in FY2016; and (ii) a decrease in rent and rates expenses of approximately HK\$0.6 million following completion of our office relocation and consolidation in FY2017. The increase in staff costs was mainly due to the overall higher level of salary payments to our employee and the overall increase in the number of our employees.

Listing expenses

Listing expenses for FY2017 amounted to approximately HK\$3.9 million (FY2016: nil). Please refer to the paragraph headed “Listing expenses” in this section for further details.

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Finance costs

Finance costs, which principally represented our interest expenses on bank borrowings and finance lease, decreased from approximately HK\$0.5 million for FY2016 to approximately HK\$0.3 million for FY2017. The decrease was principally due to the decrease in average monthly outstanding balance of our bank borrowings during FY2017.

Income tax

Our income tax expenses increased by approximately HK\$1.8 million or 49.0% from approximately HK\$3.6 million for FY2016 to approximately HK\$5.3 million for FY2017, which was in line with the increase in our profit before taxation for FY2017 as compared to FY2016. Our effective tax rate increased from approximately 16.8% for FY2016 to approximately 18.5% for FY2017 which was mainly attributable to the listing expenses incurred in FY2017 which was not tax-deductible.

Profit for the period and net profit margin

As a result of the foregoing, our net profit for FY2017 increased by approximately HK\$5.7 million from approximately HK\$17.7 million for FY2016 to approximately HK\$23.4 million for FY2017, representing an increase of approximately 32.2%. Our net profit margin also increased from approximately 16.0% for FY2016 to approximately 18.6% for FY2017, mainly due to the combined effect of the factors discussed above.

Year ended 31 December 2016 compared to year ended 31 December 2015

Revenue

Our revenue decreased by approximately HK\$17.6 million, or 13.7%, from approximately HK\$128.0 million for FY2015 to approximately HK\$110.5 million for FY2016. Such decrease was mainly attributed to a decrease in contract revenue of approximately HK\$15.7 million and a decrease in revenue from variation orders of approximately HK\$1.9 million, respectively.

Contract revenue decreased for both installation services only type of projects (from approximately HK\$97.5 million for FY2015 to approximately HK\$89.8 million for FY2016) and installation services with HVAC systems procurement type of projects (from approximately HK\$30.6 million for FY2015 to approximately HK\$20.7 million for FY2016), mainly because we had a number of large scale projects (including MT12, STP14001-1, MT9 and MT14) with substantial portion of contract revenue recognised in FY2015 in accordance with their respective project execution progress. On the other hand, our revenue from variation orders also decreased from approximately HK\$4.3 million for FY2015 to approximately HK\$2.4 million for FY2016.

Cost of services

Our cost of services decreased from approximately HK\$91.1 million for FY2015 to approximately HK\$72.3 million for FY2016, representing a decrease of approximately HK\$18.8 million or approximately 20.7%. The decrease was mainly attributable to (i) a decrease in the materials and consumables costs of approximately HK\$11.8 million as we generated less revenue from projects that

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required procurement of HVAC systems to be installed by us in FY2016; and (ii) a decrease in subcontracting fees of approximately HK\$7.9 million, which was generally in line with the decrease in our revenue generated from installation services only type of projects.

Gross profit and gross profit margin

Our gross profit increased from approximately HK\$36.9 million for FY2015 to approximately HK\$38.2 million for FY2016, representing an increase of approximately HK\$1.3 million or approximately 3.4%. The overall gross profit margin has increased from approximately 28.8% for FY2015 to approximately 34.6% for FY2016, partly as a result of the change in percentage of revenue contributed by projects requiring installation services only and those requiring both installation services and procurement of HVAC systems between FY2015 and FY2016. More particularly, while projects requiring both installation services and procurement of HVAC systems are typically associated with larger contract sum, we generally provide for a lesser profit margin on HVAC systems procurement, generally resulting in a lower overall gross profit margin compared to projects involving installation services only. The higher percentage revenue contribution from installation services only type of projects for FY2016 therefore contributed to the increase in overall gross profit margin compared to FY2015.

Other income

Other income for FY2015 and FY2016 remained stable and amounted to approximately HK\$1.5 million and HK\$1.5 million, respectively.

Administrative expenses

Administrative expenses for FY2015 and FY2016 amounted to approximately HK\$13.0 million and HK\$17.9 million respectively. The increase in administrative expenses by approximately HK\$4.8 million or approximately 37.2% for FY2016 was mainly due to (i) an increase in administrative and management staff costs, including Directors' emoluments, of approximately HK\$3.2 million; (ii) an increase in meals and entertainment expenses of approximately HK\$0.3 million; (iii) an increase in rent and rates of approximately HK\$0.7 million due to the two additional offices we rented in FY2016 during the transitional period of our office relocation and consolidation; and (iv) the tax penalty provision of approximately HK\$0.8 million.

For details of the tax penalty, please refer to the paragraph headed "Results of operation — Administrative expenses" in this section.

Finance costs

Finance costs, which principally represented our interest expenses on bank borrowings and finance lease, amounted to approximately HK\$0.5 million for both FY2015 and FY2016.

Income tax

Our income tax expenses amounted to approximately HK\$4.2 million and HK\$3.6 million for FY2015 and FY2016, respectively. Our effective tax rate remained stable at approximately 16.8% for FY2015 and FY2016.

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Profit for the period and net profit margin

As a result of the foregoing, our profit after tax decreased by approximately HK\$3.0 million or approximately 14.5% from approximately HK\$20.7 million for FY2015 to approximately HK\$17.7 million for FY2016. Our net profit margin also decreased slightly from approximately 16.2% for FY2015 to approximately 16.0% for FY2016 mainly due to the combined effect of the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are settlement of cost of services provided, administrative expenses, finance costs, income tax expenses and other working capital needs. During the Track Record Period, we met these cash requirements by relying on our principal sources of funding, being a combination of Shareholders' equity, cash flows generated from operations and certain bank borrowings.

We monitor our cash flows and cash balance on a regular basis and seek to maintain at all material times a reasonable level of liquidity and working capital buffer to support our general operations, funding obligations and capital commitments, as well as to facilitate efficient and timely management decisions on undertaking new business opportunities as they arise.

Cash flow

The following table sets forth our selected consolidated cash flow statements for the periods indicated. This information should be read together with the consolidated financial information contained in the Accountants' Report in Appendix I to this prospectus:

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	28,012	27,338	(28,056)
Net cash (used in)/generated from investing activities	(599)	(1,344)	2,059
Net cash (used in)/generated from financing activities	(26,166)	(11,940)	5,261
Net increase/(decrease) in cash and cash equivalents	1,247	14,054	(20,736)
Cash and cash equivalents at beginning of the year	(5,379)	(4,132)	9,922
Cash and cash equivalents at end of the year	(4,132)	9,922	(10,814)

Cash flow from operating activities

Net cash generated from/(used in) operations primarily consisted of profit before taxation, adjusted for depreciation of property and equipment, bank interest income, finance costs, gain in disposal of plant and equipment, net effect of changes in working capital and Hong Kong profits tax paid.

Our major operating cash inflows are derived mainly from the receipt of payments from contract works undertaken by us and our cash used in operating activities mainly include subcontracting fees, material costs, direct labour costs and general administrative expenses.

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For FY2017, our Group had net cash used in operating activities of approximately HK\$28.1 million as a combined result of operating cash flows before movements in working capital of approximately HK\$30.0 million (which was considered to be relatively in line with our result of operations), the negative changes in working capital of HK\$46.1 million and the payment of Hong Kong profit tax of approximately HK\$11.9 million. Changes in working capital primarily reflected (i) an increase in trade and other receivable of approximately HK\$28.3 million primarily due to a notable increase in our revenue associated with variation orders of approximately HK\$13.3 million that have been successfully certified by our customers and remained outstanding as of 31 December 2017, and the progress billings on certified work performed by our Group in certain key projects that remained outstanding as of 31 December 2017; and (ii) an increase in net amount of contract assets of approximately HK\$18.9 million due to the increase in volume and value of HVAC E&M engineering services we performed net of amount of progress payment applications made to our customers, partially offset by the increase in trade and other payables of HK\$1.1 million.

For FY2016, our Group had net cash generated from operating activities of approximately HK\$27.3 million, primarily contributed by the combined effect of (i) decrease in trade and other receivables of approximately HK\$6.6 million; (ii) increase in trade and other payables of approximately HK\$1.8 million; and (iii) the operating cash flows before movements in working capital of approximately HK\$22.6 million. This was partially offset by increase in net amount of contract assets of approximately HK\$1.1 million and the payment of Hong Kong profit tax of approximately HK\$2.6 million.

For FY2015, our Group had net cash generated from operating activities of approximately HK\$28.0 million, primarily contributed by the combined effect of (i) decrease in net amount of contract assets of approximately HK\$11.5 million and (ii) the operating cash flows before movements in working capital of approximately HK\$26.1 million. This was partially offset by (i) increase in trade and other receivables of approximately HK\$1.6 million; (ii) decrease in trade and other payables of approximately HK\$6.7 million; and (iii) the payment of Hong Kong profit tax of approximately HK\$1.2 million.

Cash flow from investing activities

Our net cash generated from investing activities was approximately HK\$2.1 million for FY2017, principally representing the proceeds from disposal of plant and equipment of approximately HK\$0.9 million and decrease in pledged deposit of approximately HK\$1.3 million, offset by payment for purchase of plant and equipment of approximately HK\$0.1 million.

Our net cash used in investing activities was approximately HK\$1.3 million for FY2016, principally representing the payment for purchase of plant and equipment of approximately HK\$1.7 million, offset by proceeds from disposal of plant and equipment of approximately HK\$0.4 million.

Our net cash used in investing activities was approximately HK\$0.6 million for FY2015, principally representing the payment for purchase of plant and equipment of approximately HK\$0.1 million and increase in pledged deposit of approximately HK\$1.3 million, offset by proceeds from disposal of plant and equipment of approximately HK\$0.8 million.

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Cash flow from financing activities

Our net cash generated from financing activities was approximately HK\$5.3 million for FY2017, principally representing the proceeds from new bank loans of approximately HK\$11.7 million and partially offset by (i) the repayment of bank borrowings of approximately HK\$2.6 million; (ii) the repayment of finance leases of approximately HK\$1.2 million; (iii) payment for listing expenses of approximately HK\$1.2 million; and (iv) the advances to Directors of approximately HK\$1.1 million.

Our net cash used in financing activities was approximately HK\$11.9 million for FY2016, principally representing (i) the repayment of bank loans of approximately HK\$2.2 million; (ii) the payment for finance leases of HK\$0.9 million; (iii) the advances to Directors of HK\$1.2 million; and (iv) dividends paid of approximately HK\$8.6 million, partially offset by proceeds from new bank loans of approximately HK\$1.4 million.

Our net cash used in financing activities was approximately HK\$26.2 million for FY2015, principally representing (i) the advances to Directors of approximately HK\$16.5 million; (ii) dividends paid of approximately HK\$9.5 million; (iii) the repayment of bank loans of approximately HK\$1.4 million; and (iv) the payment for finance leases of approximately HK\$1.0 million, partially offset by proceeds from new bank loans of approximately HK\$1.2 million and proceeds from issue of share capital of approximately HK\$1.0 million.

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Net current assets

	As at 31 December			As at 30 April 2018
	2015	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Current assets				
Trade and other receivables	17,875	11,314	40,825	18,870
Contract assets	14,892	15,677	29,194	37,003
Amounts due from Directors	18,947	13,566	14,673	—
Amounts due from related companies	10,498	—	—	—
Cash at bank and in hand	4,190	15,652	1,838	15,249
Pledged bank deposits	1,250	1,252	—	—
	67,652	57,461	86,530	71,122
Current liabilities				
Trade and other payables	8,191	9,958	11,070	12,619
Contract liabilities	7,347	7,063	1,707	2,430
Amounts due to a related company	30	—	—	—
Bank loans and overdrafts	13,014	9,609	25,581	16,107
Obligations under finance leases	613	757	327	517
Tax payable	6,574	7,995	724	3,212
	35,769	35,382	39,409	34,885
Net current assets	31,883	22,079	47,121	36,237

We recorded net current assets as at each of 31 December 2015, 2016 and 2017, which amounted to approximately HK\$31.9 million, HK\$22.1 million and HK\$47.1 million, respectively. We recorded increase in net current assets positions as at 31 December 2017 as compared to the previous financial year end mainly due to (i) an increase in trade and other receivables of approximately HK\$29.5 million; (ii) an increase in contract assets of approximately HK\$13.5 million; (iii) a decrease in contract liabilities of approximately HK\$5.4 million; and (iv) a decrease in tax payable of approximately HK\$7.3 million. The increase in net current assets positions was partly offset by (i) an increase in trade and other payables of approximately HK\$1.1 million; (ii) an increase in bank loans and overdrafts of approximately HK\$16.0 million and a decrease in bank balances and cash (including pledged bank deposits) of approximately HK\$15.1 million. We recorded decrease in net current assets position as at 31 December 2016 as compared to the previous financial year end mainly due to (i) an increase in trade and other payables of approximately HK\$1.8 million; (ii) an increase in tax payable of approximately HK\$1.4 million; (iii) a decrease in trade and other receivables of approximately HK\$6.6 million; (iv) a decrease in amounts due from related companies of approximately HK\$10.5 million; and (v) a decrease

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in amounts due from Directors of approximately HK\$5.4 million. The decrease in net current assets position was partly offset by (i) an increase in cash and cash equivalents of approximately HK\$11.5 million; and (ii) a decrease in bank loans and overdrafts of approximately HK\$3.4 million.

As at 30 April 2018, being the latest practicable date for ascertaining our net current assets position, we recorded net current assets of approximately HK\$36.2 million, representing a decrease of approximately HK\$10.9 million from approximately HK\$47.1 million as at 31 December 2017, mainly resulting from (i) a decrease in trade and other receivables of approximately HK\$22.0 million; (ii) a decrease in amounts due from Directors of approximately HK\$14.7 million; and (iii) an increase in tax payable of approximately HK\$2.5 million, partially offset by (i) an increase in contract assets of approximately HK\$7.8 million; (ii) an increase in cash at bank and in hand of approximately HK\$13.4 million; and (iii) a decrease in bank loans and overdrafts of approximately HK\$9.5 million.

Working capital

As at 31 December 2015, 2016, 2017 and 30 April 2018, our Group's total banking facilities amounted to approximately HK\$17.4 million, HK\$20.9 million, HK\$39.1 million and HK\$39.1 million respectively, of which approximately HK\$13.0 million, HK\$9.6 million, HK\$25.6 million and HK\$16.1 million respectively were utilised and approximately HK\$1.9 million, HK\$7.8 million, HK\$8.7 million and HK\$14.0 million, respectively, in respect of revolving facilities and overdrafts remained unutilised and with no restriction on the drawdown.

Taking into account the financial resources available to our Group, including internally generated funds, cash and cash equivalents, available banking facilities and the expected net proceeds of the Share Offer, and in the absence of unforeseen circumstances, our Directors are of the view, and the Sole Sponsor concurs that our Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Trade and other receivables

Our trade and other receivables consisted of (i) trade receivables; (ii) retention receivables; and (iii) deposits, prepayments and other receivables.

Set out below is the composition of trade 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 receivables	10,648	2,805	27,359
Retention receivables	5,940	7,439	12,064
Deposits, prepayments and other receivables	1,287	1,070	1,402
	17,875	11,314	40,825

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Trade receivables

Our trade receivables principally represented receivables from our customers arising from the provision of HVAC E&M engineering services in Hong Kong. In general, we submit an interim payment application to our customers on a monthly basis with details regarding the amount of contract work done in the preceding month. Upon receiving our interim payment application, our customers usually certify our work done and issue the payment certificate within 30 days. Our customers are normally required to pay us within 30 to 45 days after the issue of the payment certificate. Our trade receivables decreased from approximately HK\$10.6 million as of 31 December 2015 to approximately HK\$2.8 million as of 31 December 2016, primarily contributed by the significant sums of progress billings issued to our customers on certified works performed on five residential projects, namely MT10, MT14, MT9, MT15 and MT2, which remained outstanding as of 31 December 2015 and were subsequently settled by our customers during FY2016. Our trade receivables increased from approximately HK\$2.8 million as of 31 December 2016 to approximately HK\$27.4 million as of 31 December 2017, mainly due to (i) a notable increase in our revenue associated with variation orders of approximately HK\$13.3 million that have been successfully certified by our customers and remained outstanding as of 31 December 2017; and (ii) the progress billings on certified work performed by our Group in certain key projects, such as MTW2, MT14 and STP14001 that remained outstanding as of 31 December 2017.

Ageing analysis of trade receivables

The following table sets out the ageing analysis of our trade receivables, based on the date of respective payment certificates and net of allowance for doubtful debts, as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	8,469	2,417	26,314
1 to 2 months	—	28	1,029
2 to 3 months	—	25	—
Over 3 months	<u>2,179</u>	<u>335</u>	<u>16</u>
	<u><u>10,648</u></u>	<u><u>2,805</u></u>	<u><u>27,359</u></u>

Our Directors determine specific provision for doubtful debts on a case-by-case basis with regards to a number of factors, including the ageing of the receivables balance, results of follow-up procedures, customers' credit history and customers' financial position. During the Track Record Period, we did not make any provision for doubtful debts and we did not experience any difficulty in settling receivables balance with our customers which may cause a significant adverse impact to our business operation. In the event that we notice any events or changes in circumstances which indicate the balance may not be collectible, such as any financial or liquidity problem of the customers which may result in difficulty in settling the outstanding payments, relevant provision of impairment of trade debtors would be made.

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Trade receivables are past due when our customers fail to make payments when due. We generally offer our customers a credit term of 30 to 45 days after issuance of payment certificates. The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended 31 December		
	2015	2016	2017
	<i>days</i>	<i>days</i>	<i>days</i>
Trade receivables turnover days (<i>Note</i>)	32	22	44

Note: Trade receivables turnover days for the years ended 31 December 2015, 2016 and 2017 are calculated by dividing our average trade receivables with revenue for the relevant period and multiplied by 365 days. Average trade receivables is calculated as the average of trade receivables at the beginning and the end of a period.

Trade receivables turnover days indicate the average time required for us to collect payments from our customers. Our trade receivables turnover days decreased from 32 days for FY2015 to 22 days for FY2016 and subsequently increased to 44 days for FY2017, which were generally in line with the movement of our trade receivables during the Track Record Period. More specifically, the reported increase in our trade receivables turnover days for FY2017 was mainly a result of the increase in our balance of trade receivables from HK\$2.8 million as of 31 December 2016 to HK\$27.4 million as of 31 December 2017 for reasons as explained in the preceding paragraph headed “Description of selected consolidated statements of financial position items — Trade and other receivables — Trade receivables” in this section, which led to the increase of our average trade receivables from HK\$6.7 million for FY2016 to HK\$15.1 million for FY2017. Our trade receivables turnover days for each period during the Track Record Period were within the range of our customer credit terms.

The following table sets out the amounts of trade receivables that were neither past due nor impaired and an ageing analysis of trade receivables that were past due but not impaired as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	8,469	2,442	27,343
Less than 1 month past due	—	28	—
1 to 3 months past due	—	—	—
Over 3 months past due	2,179	335	16
	2,179	363	16
	10,648	2,805	27,359

As of 31 December 2015, 2016 and 2017, trade receivables that were past due but not impaired were approximately HK\$2.2 million, HK\$0.4 million and HK\$16,000, respectively. As our customers did not have a history of default with us, our management believes that these balances will be fully recoverable, and hence no provision for impairment is necessary.

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Our management closely monitors the recoverability of overdue trade receivables on a regular basis and provides for impairment for these trade receivables when there are indications that the balances may not be recoverable. For FY2015, FY2016 and FY2017, we did not recognise any impairment of trade receivables. Our Directors confirm that we have no dispute with our customers over the outstanding receivables, which are expected to be fully recoverable. Approximately 95.6% or approximately HK\$26.2 million of the trade receivables as of 31 December 2017 were subsequently settled as at 30 April 2018.

Retention receivables

Retention receivables represent the retention monies retained by our customers to secure our Group's due performance of the contracts. It is a common industry practice that a portion of progress payment is held up by our customers to secure the due performance of our Group. Our customer will usually retain up to 10% of each interim payment and up to a maximum limit of 5% of the contract sum as retention money. It is generally stipulated in our contract terms that 50% of the retention money will be released to us following completion of a project and the remaining 50% of the retention money will be released following expiration of the defects liability period of a project.

In line with the progress of our projects, our retention receivables increased from approximately HK\$5.9 million as of 31 December 2015 to approximately HK\$7.4 million as of 31 December 2016, and further to approximately HK\$12.1 million as of 31 December 2017. In view of the nature of retention receivables, past payment record and our collective experience with these customers, our Directors consider that the outstanding balances of retention receivables are collectible.

Deposits and prepayments

The following table sets out a summary of our deposits and prepayments as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits	104	144	110
Prepayments	1,183	926	1,292
Total	1,287	1,070	1,402

Deposits mainly represented rental and utilities deposits. Major contributors to our prepayments differed as of each of 31 December 2015, 2016 and 2017. As of 31 December 2015 prepayments were primarily related to procurement of HVAC systems. Prepayments as of 31 December 2016 mainly related to our occasional indent sales of HVAC systems to customers, while prepayments as of 31 December 2017 related principally to listing expenses.

Contract assets/liabilities

Our Group recognises our revenue based on the percentage of completion of the relevant project, measured with reference to the contract costs incurred to date as a percentage of our budgeted costs of the project. On the other hand, we issue progress payment applications (i.e. progress billings) based on

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the progress of our work performed for certification by our customers. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as contract assets which represented unbilled amounts earned and reimbursable under contracts. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as contract liabilities.

The following table sets out the details of the our contract assets and contract liabilities as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract assets	14,892	15,677	29,194
Contract liabilities	<u>(7,347)</u>	<u>(7,063)</u>	<u>(1,707)</u>
	<u><u>7,545</u></u>	<u><u>8,614</u></u>	<u><u>27,487</u></u>

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus recognised profits			
less recognised losses	303,640	401,222	507,578
Less: Progress billings to date	<u>(296,095)</u>	<u>(392,608)</u>	<u>(480,091)</u>
	<u><u>7,545</u></u>	<u><u>8,614</u></u>	<u><u>27,487</u></u>

As of 31 December 2015, 2016 and 2017, our progress billings for all relevant projects in aggregate were less than our total contract costs incurred plus recognised profits less recognised losses and, accordingly, our contract assets exceeded contract liabilities as at the respective dates. Both contract costs incurred plus recognised profits less recognised losses and progress billings to date include our projects on hand and projects that had been completed but were still in the defects liability period as at each of the reporting period. As of 31 December 2017, out of approximately HK\$507.6 million of contract costs incurred plus recognised profits less recognised losses, approximately HK\$81.4 million were related to our projects on hand and approximately HK\$426.2 million were related to projects that had been completed but were still in the defects liability period.

The net amount of contract assets increased from approximately HK\$7.5 million as of 31 December 2015 to approximately HK\$8.6 million as of 31 December 2016, and further increased to HK\$27.5 million as of 31 December 2017. The net amounts of contract assets/liabilities may vary as they are usually affected by the volume and value of HVAC E&M engineering services we performed close to the end of each reporting period, the timing of our progress billings to or payment by our customers, and the timing of progress billings from and payment to our suppliers and subcontractors.

As of 30 April 2018, contract assets as of 31 December 2017 which had subsequently been certified by our customers amounted to approximately HK\$23.9 million or approximately 81.8%.

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Amounts due from/to Director(s) and related companies

The following table sets out our amounts due from/to Directors and related companies as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from Directors	18,947	13,566	14,673
Amounts due from related companies	10,498	—	—
Amounts due to a related company	30	—	—

During the Track Record Period, amounts due from Directors mainly represented advances to Mr. Tony Cheung and Mr. Gary Cheung, our Directors, for their personal use. The amounts were non-trade in nature, unsecured, interest-free and repayable on demand. As at the Latest Practicable Date, all amounts due from Directors had been fully settled.

As of 31 December 2015, amounts due from related companies mainly represented advances to our related companies and were non-trade in nature, unsecured, interest-free and have no fixed repayment terms. As at the Latest Practicable Date, all amounts due from/to the related companies had been fully settled.

Trade and other payables

The table below sets out the breakdown of our trade and other 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	4,912	3,016	6,017
Accrued subcontracting costs	99	2,401	541
Other payables and accruals	3,180	4,541	4,512
	8,191	9,958	11,070

Trade payables

Trade payables principally comprised of payables to (i) suppliers of HVAC systems and other materials; and (ii) subcontractors for our projects. Our trade payables decreased from approximately HK\$4.9 million as of 31 December 2015 to approximately HK\$3.0 million as of 31 December 2016. Such decrease was mainly attributable to early settlement of subcontracting fee payables to our subcontractors before the financial year end. Trade payables increased from approximately HK\$3.0 million as of 31 December 2016 to approximately HK\$6.0 million as of 31 December 2017, mainly due to the late submission of payment applications from our subcontractors towards the end of the financial year for our certification.

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The following table sets forth the turnover days of the trade payables for the periods indicated:

	Year ended 31 December		
	2015	2016	2017
	<i>days</i>	<i>days</i>	<i>days</i>
Trade payables turnover days (<i>Note</i>)	36	20	22

Note: Trade payables turnover days for the three years ended 31 December 2015, 2016 and 2017 are calculated by dividing our average trade payables with costs of services for the relevant period and multiplied by 365 days. Average trade payables equal the average of trade payables at the beginning and the end of the period.

Our trade payables turnover days decreased from 36 days for FY2015 to 20 days for FY2016. Such decrease was mainly due to the early settlement of subcontracting fee payables to our subcontractors and the decrease in our costs of services. Our trade payables turnover days subsequently increased slightly to 22 days for FY2017. Our suppliers normally grant us a credit period of up to 60 days. Our trade payables turnover days for each period during the Track Record Period were within the range of the credit period granted by our suppliers.

The following table sets forth the ageing analysis of our trade payables based on the invoice date as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	3,760	1,664	3,280
1 to 2 months	1,136	1,301	2,398
2 to 3 months	16	51	339
	4,912	3,016	6,017

Approximately 99.8% of the trade payables as of 31 December 2017 were subsequently settled as at 30 April 2018.

Other payables and accruals

Our other payables and accruals, which primarily comprised of accrued staff salaries and bonus, costs incurred for works performed by our subcontractors for which payment applications have yet to be received, and other payables due to our customers, increased from approximately HK\$3.2 million as of 31 December 2015 to approximately HK\$4.5 million as of 31 December 2016, and remained relatively stable at approximately HK\$4.5 million as of 31 December 2017. The changes were mainly attributable to average salary increment and change of staff headcounts during the Track Record Period as well as the timing difference of billings by our subcontractors.

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Obligations under finance lease

As at 31 December 2015, 2016 and 2017, our Group had obligations under finance leases repayable as follows:

	As at 31 December					
	2015		2016		2017	
	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>
Within 1 year	<u>613</u>	<u>687</u>	<u>757</u>	<u>823</u>	<u>327</u>	<u>349</u>
After 1 year but within 2 years	<u>617</u>	<u>662</u>	<u>738</u>	<u>767</u>	<u>223</u>	<u>230</u>
After 2 years but within 5 years	<u>682</u>	<u>701</u>	<u>298</u>	<u>309</u>	<u>75</u>	<u>76</u>
	<u><u>1,912</u></u>	<u><u>2,050</u></u>	<u><u>1,793</u></u>	<u><u>1,899</u></u>	<u><u>625</u></u>	<u><u>655</u></u>
Less: Total future interest expenses		<u>(138)</u>		<u>(106)</u>		<u>(30)</u>
Present value of lease obligations		<u><u>1,912</u></u>		<u><u>1,793</u></u>		<u><u>625</u></u>

Our obligations under finance leases were denominated in Hong Kong dollars. The effective interest rates for our outstanding obligations under finance leases as of 31 December 2015, 2016 and 2017 ranged from 4.22% to 8.00%, 4.31% to 6.61% and 4.37% to 6.61% per annum, respectively. The obligations under the finance leases were secured by the motor vehicles of our Group.

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INDEBTEDNESS

As of 31 December 2015, 2016, 2017 and 30 April 2018, our bank loans and overdrafts were secured as follows:

	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)
Secured overdrafts	8,322	5,730	12,652	7,449
Secured bank loans	4,692	2,479	12,929	8,658
Unsecured bank loans	<u>—</u>	<u>1,400</u>	<u>—</u>	<u>—</u>
	<u>13,014</u>	<u>9,609</u>	<u>25,581</u>	<u>16,107</u>

As at 31 December 2015, 2016, 2017 and 30 April 2018, our bank loans and overdrafts were repayable as follows:

	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 1 year or on demand	<u>13,014</u>	<u>9,609</u>	<u>25,581</u>	<u>16,107</u>

Notwithstanding the specified repayment schedules as stated in the facilities letters (“**specific repayment terms**”) which allow the loans to be repaid over a period of more than one year, certain of the banking facilities granted to our Group include a clause that gives the banks the unconditional rights to recall the bank loans at any time (“**repayment on demand clause**”). Bank loans that are subject to the repayment on demand clause amounted to HK\$4.7 million, HK\$3.9 million, HK\$12.9 million and HK\$8.7 million as of 31 December 2015, 2016, 2017 and 30 April 2018, respectively, and were classified as current liabilities.

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We expect that the bank loans and overdrafts are to be repaid as follows based on the specific repayment terms:

	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)
Bank loans and overdrafts due for repayment within one year or on demand:				
Overdrafts repayable on demand	8,322	5,730	12,652	7,449
Bank loans due for repayment within one year	2,213	2,647	12,662	8,568
	10,535	8,377	25,314	16,017
 Bank loans due for repayment after one year (<i>Note</i>):				
More than one year, but not exceeding two years	1,247	965	267	90
More than two years, but not more than five years	1,232	267	—	—
	2,479	1,232	267	90
	13,014	9,609	25,581	16,107

Note: The presentation of amounts due for repayment are based on the specific repayment terms set out in the facilities letters and the effect of any repayment on demand clause is ignored.

All of our bank loans and bank overdrafts were denominated in Hong Kong dollars. The effective interest rates of our bank loans as at 31 December 2015, 2016 and 2017 ranged from 3.00% per annum, 3.00% to 4.00% per annum and 3.00% to 3.75% per annum, respectively, and the effective interest rates of our bank overdrafts as at 31 December 2015, 2016 and 2017 ranged from 4.25% to 4.50% per annum, 4.25% to 4.50% per annum and 4.25% to 5.26% per annum, respectively.

As at 31 December 2015, 2016, 2017 and 30 April 2018, our Group's total banking facilities amounted to approximately HK\$17.4 million, HK\$20.9 million, HK\$39.1 million and HK\$39.1 million respectively, of which approximately HK\$13.0 million, HK\$9.6 million, HK\$25.6 million and HK\$16.1 million respectively were utilised and approximately HK\$1.9 million, HK\$7.8 million, HK\$8.7 million and HK\$14.0 million, respectively, in respect of revolving facilities and overdrafts remained unutilised. The banking facilities (including bank loans and overdrafts) of our Group were secured by (i) certain properties owned by the Controlling Shareholders, namely, Mr. Tony Cheung and Mr. Gary Cheung and their related parties; and (ii) unlimited personal guarantees provided by Mr. Tony Cheung and Mr. Gary

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Cheung. Our Directors confirm that the personal guarantees given by our Controlling Shareholders and the pledge of certain properties owned by them and their related parties will be released or replaced by our corporate guarantees upon Listing.

During the Track Record Period and as at the Latest Practicable Date, bank borrowing agreements were entered into with banks under normal standard terms and conditions. The agreements of our bank borrowings do not contain any material covenants that will have a material adverse impact on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors confirm that our Group has not experienced any difficulty in obtaining bank borrowings, default in payment on bank borrowings or breach of finance covenants during the Track Record Period and up to the Latest Practicable Date and our Group has no material external debt financing plans as at the Latest Practicable Date.

CAPITAL EXPENDITURES

Our capital expenditure, consisted primarily of purchases for plants and equipment and leasehold improvements, amounted to approximately HK\$2.6 million, HK\$2.4 million and HK\$0.1 million for FY2015, FY2016 and FY2017, respectively. We intend to fund our capital expenditures with cash generated from our operating activities.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

During the Track Record Period and as at the Latest Practicable Date, we did not have any capital commitments.

Operating lease commitments

As at the Latest Practicable Date, we had entered into one non-cancellable operating lease agreement for leasing an office in Hong Kong as our principal place of business with initial lease period of approximately 2 years, with an option to renew at the end of the lease term. The following table sets forth our total future minimum lease payments under non-cancellable operating leases as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	378	498	210
After 1 year but within 5 years	78	210	—
	456	708	210

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Contingent liabilities

As of 31 December 2015, 2016 and 2017, contingent liabilities not provided for in our Group's financial statements were as follows:

(a) *Performance bonds*

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Performance bonds given to a customer for due and proper performance of projects undertaken by our Group's subsidiaries	1,248	1,248	—

(b) *Financial guarantee issued*

As at 31 December 2015, 2016 and 2017, our Group has issued a single guarantee in respect of a banking facility made by a bank to Well Crown Investment Limited, a related company of our Group. Our Group has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was nil. Our Group monitored the conditions that were subject to the guarantee to identify whether it was probable that a loss has occurred, and recognised any such losses under the guarantee when those losses can be estimated. As at the end of each of the reporting period, our Directors did not consider it was probable that a claim would be made against our Group under the guarantee. The maximum liability of the Group at 31 December 2015, 2016 and 2017 under the guarantee issued was the outstanding amount of the banking facility utilised by Well Crown Investment Limited of approximately HK\$4.2 million, HK\$3.9 million and HK\$3.5 million, respectively. Our Directors confirm that the outstanding guarantee as set out above will be released by the bank upon Listing.

Except as described above and apart from intra-group liabilities and normal trade payables, as at the Latest Practicable Date, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE-SHEET TRANSACTIONS

Save as disclosed above, as of 31 December 2017 and the Latest Practicable Date, we did not have any off-balance-sheet arrangements or commitments.

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ANALYSIS OF SELECTED FINANCIAL RATIOS

The following table sets forth our selected key financial ratios during the Track Record Period:

As at/for the year ended 31 December	2015	2016	2017
Profitability ratios			
Gross profit margin ⁽¹⁾	28.8%	34.6%	41.1%
Net profit margin ⁽²⁾	16.2%	16.0%	18.6%
Return on equity ⁽³⁾	63.4%	71.5%	48.6%
Return on assets ⁽⁴⁾	29.6%	28.9%	26.6%
Current ratio ⁽⁵⁾	1.9 times	1.6 times	2.2 times
Gearing ratio ⁽⁶⁾	45.6%	46.0%	54.4%

Notes:

1. Gross profit margin is calculated by dividing the gross profit with the revenue for the relevant year multiplied by 100%.
2. Net profit margin is calculated by dividing the net profit with the revenue for the relevant year multiplied by 100%.
3. Return on equity is calculated by dividing the net profit with the total equity as at the end of the relevant year multiplied by 100%.
4. Return on assets is calculated by dividing the net profit with the total assets as at the end of the relevant year multiplied by 100%.
5. Current ratio is calculated by dividing the current assets with the current liabilities as at the end of the relevant year.
6. Gearing ratio is calculated by dividing the total borrowings with the total equity as at the end of the relevant year multiplied by 100%.

Please refer to the paragraph headed “Review of historical results of operations” in this section for a discussion of the factors affecting our gross profit margin and net profit margin during the Track Record Period.

Return on equity

Return on equity increased from approximately 63.4% for FY2015 to approximately 71.5% for FY2016 due to a decrease in total equity base as members of our Group declared approximately HK\$25.6 million of dividends to our then shareholders during FY2016. The decrease in return on equity from approximately 71.5% for FY2016 to approximately 48.6% for FY2017 was mainly due to an increase in total equity as a result of our Group’s increase in net profit during the year.

Return on assets

Return on assets decreased slightly from approximately 29.6% for FY2015 to approximately 28.9% for FY2016 mainly due to the combined effect of a decrease in total assets (which was partly attributable to settlement of dividends declared) and the decrease in net profit for FY2016, and further down to approximately 26.6% for FY2017 primarily due to the significant increase in our trade and other receivables and contract assets, which was partially offset by the significant decrease in our cash at bank and on hand.

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Current ratio

As our Group did not hold any inventory during the Track Record Period, the current ratio of our Group is identical to the quick ratio. Our current ratio remained relatively stable at 1.9 times and 1.6 times as of FY2015 and FY2016, respectively, and increased to 2.2 times as of FY2017, primarily as a result of an increase in our trade and other receivables and contract assets.

Gearing ratio

Our gearing ratio remained stable at approximately 45.6% and 46.0% as of 31 December 2015 and 31 December 2016, respectively. The increase in gearing ratio from approximately 46.0% as of 31 December 2016 to approximately 54.4% as of 31 December 2017 was mainly due to an increase in our balance of bank loans and overdrafts of approximately HK\$16.0 million as of 31 December 2017.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. Our Group's exposure to the above risks and the financial risk management policies and practices used by our Group to manage these risks are described below:

Interest rate risk

We are exposed to cash flow interest rate risk arising from our bank borrowings, as our borrowings were obtained at variable interest rates. Our Group does not use any derivative financial instruments to hedge our risk exposure against changes in interest rates.

The sensitivity analysis below has been determined based on the exposure to the interest rates for variable rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on all variable-rate borrowings had been 100 basis points higher/lower and all other variables were held constant, our net profit after income tax for FY2015, FY2016 and FY2017 would increase/decrease by HK\$109,000, HK\$80,200, HK\$213,600, respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

Credit risk

The credit risk of our Group is primarily attributable to bank deposits and trade and other receivables. The carrying amounts, where applicable, of each class of these financial assets represent our Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates. Our credit risk of bank deposits is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies. In respect of trade and other receivables, individual credit evaluations are performed on our customers and counterparties. Monitoring procedures have been implemented to

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ensure that follow-up action will be taken to recover overdue debts. Our Directors will consider making specific provisions for trade receivables at the end of each reporting year/period when there are indications that the balances are unlikely to be recovered.

Our Group has significant concentration of credit risk in a few customers. As at 31 December 2015, 2016 and 2017, approximately 87.0%, 87.2% and 33.6%, respectively, of our Group's total trade receivables were attributable to our Group's largest customer, and all of our Group's trade receivables was due from our Group's five largest customers.

Liquidity risk

Our Group's policy is to monitor our current and expected liquidity requirements regularly to ensure that our Group maintains sufficient reserve of cash to meet our liquidity requirements in both long and short terms to ensure that our Group has sufficient financial resources to fund our operations.

Foreign exchange risk

Our Group is a subcontractor capable of providing HVAC E&M engineering services in Hong Kong, with all of our transactions settled in Hong Kong dollars. As such, our Directors are of the view that our Group did not have any significant foreign exchange liabilities and did not have any significant exposure to foreign exchange risk during the Track Record Period.

RECENT BUSINESS DEVELOPMENT AND FINANCIAL PERFORMANCE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on servicing new residential property development projects as first-tier or second-tier subcontractor in Hong Kong. We have been awarded two new projects with a total awarded contract sum of approximately HK\$198.3 million, comprising ST0048 (installation services with HVAC systems procurement) with a contract sum of HK\$189.9 million and STP18001 (installation services only) with a contract sum of HK\$8.4 million, both of which were in the pre-site work stage and had not generated notable revenue (if any) as of the Latest Practicable Date. As at the Latest Practicable Date, we had 30 projects on hand with aggregate contract sum of approximately HK\$570.8 million, of which approximately HK\$186.7 million was recognised as revenue during the Track Record Period. As at the Latest Practicable Date, all projects on hand have continued to contribute revenue to our Group and none of them have had any material interruption.

Our Directors consider that our Group is well-positioned as a HVAC engineering services provider for new residential property development projects and believe that the increase in the investments made by property developers as well as the market conditions and trend in the property development market in Hong Kong would favour the growth of our Group and the demand for our services. We have been expending significant efforts to lessen our customer concentration, including adjusting our project selection strategy to increasingly weigh in customer base diversification. As at the Latest Practicable Date, we were invited and accordingly submitted tender to a new customer which is a long established property developer in Hong Kong.

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As at the Latest Practicable Date, we have renewed our registrations of registered electrical contractor, minor works contractor and registered subcontractors under the voluntary subcontractor registration scheme. Please refer to the paragraph headed “Business — Licences and permits” in this prospectus for further details.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

Please refer to the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for further details.

DIVIDEND AND DISTRIBUTABLE RESERVES

Our Company was incorporated on 11 April 2017 and has not carried out any business since the date of incorporation. Accordingly, our Company did not have any distributable reserve available for distribution to our Shareholders as at 31 December 2017. During FY2015, FY2016 and FY2017, members of our Group declared dividends in aggregation of approximately HK\$9.5 million, HK\$25.6 million and nil, respectively, to the then shareholders. Such dividends were fully settled during the Track Record Period.

We declared a dividend on 30 April 2018 to our then sole Shareholder in an amount of approximately HK\$18.0 million, of which approximately HK\$15.1 million was set off against amounts due from Directors as at 31 December 2017 and approximately HK\$2.9 million will be settled by cash by internal resources before Listing. Our Directors consider that there is no material adverse impact on our Group’s financial and liquidity position arising out of the dividend payment as our Group will maintain net current assets and net assets positions after payment of the dividend.

We do not have a fixed dividend policy and our Company does not have any predetermined dividend payout ratio. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on a number of factors, including but not limited to our operations and earnings, capital requirements and surplus, cash flow position, general financial condition and other factors that our Directors deem relevant. Investors should note that historical dividend distributions are not indicative of our Company’s future dividend distribution policy.

Any declaration, payment as well as the amount of dividends will be subject to the Articles and the Companies Law. Our Shareholders in general meeting may approve and make any declaration of dividends in any currency, but no dividend shall exceed the amount recommended by our Board. Dividends may be paid out of our Company’s distributable profits as permitted under the relevant laws.

MATERIAL ADVERSE CHANGE

We did not experience any significant decrease in revenue or any unexpected increase in our direct costs or other costs subsequent to the Track Record Period and up to the Latest Practicable Date. The construction and related industries in Hong Kong remained relatively stable after the Track Record Period and up to the Latest Practicable Date. As far as the our Directors are aware, there are no material adverse changes affecting the industry in which we operate in Hong Kong which could have a material and adverse impact on our business and financial conditions and our operating results. However, the impact of listing expenses on the profit or loss accounts has posted a material adverse change in the financial or trading position or prospect of our Group since 31 December 2017 (being the date on which

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our latest consolidated financial information were made up). Prospective investors should be aware of the impact of listing expenses on the financial performance of our Group for the year ending 31 December 2018.

Saved as disclosed above, after performing sufficient due diligence works which our Directors consider appropriate and after due and careful consideration, our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 December 2017 (being the date on which our latest consolidated financial information were prepared as set out in the Accountants' Report in Appendix I to this prospectus) and up to the date of this prospectus and there had been no event since 31 December 2017 which would materially and adversely affect the information shown in the Accountants' Report in Appendix I to this prospectus.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we leased certain premises from our related parties as our office. Our rental expenses paid to our related parties for the lease of such premises was approximately HK\$0.3 million, HK\$1.0 million and HK\$0.4 million for FY2015, FY2016 and FY2017, respectively. On 1 July 2016, Shun Tung, as tenant, entered into a tenancy agreement (the "**Tenancy Agreement**") with Most Harvest Development Limited (滿溢發展有限公司) ("**Most Harvest**"), as landlord, for a term of 2 years commencing from 1 July 2016 and ending on 30 June 2018 in respect of the premises located at Room 8, 19/F, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong with a saleable area of approximately 2,068.8 sq. ft. for use by our Group as our office, at a monthly rental of HK\$35,000 (which was arrived at after arm's length negotiations between Shun Tung and Most Harvest with reference to the prevailing market rent of the surrounding comparable premises in the vicinity of the premises). For more details, see the section headed "Connected Transactions" in this prospectus.

The above related party transactions were conducted in accordance with terms as agreed between us and the respective related parties. Our Directors have confirmed that these related party transactions were conducted on normal commercial terms that are reasonable and in the interest of our Group as a whole. Our Directors have further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

LISTING EXPENSES

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$28.0 million (based on the mid-point of the indicative Offer Price range of HK\$0.55 per Offer Share), of which approximately HK\$16.1 million has been or is expected to be recognised in our consolidated statements of profit or loss and other comprehensive income, and approximately HK\$11.9 million is expected to be capitalised upon Listing. Listing expenses of approximately HK\$3.9 million were reflected in our consolidated statements of profit or loss and other comprehensive income for the Track Record Period and an additional amount of approximately HK\$12.2 million is expected to be recognised in our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period and for the year ending 31 December 2018. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from the estimate. Our Directors expect that our financial results for the year ending 31 December 2018 will be adversely impacted by the non-recurring listing expenses to be charged to our consolidated statements of profit or loss and other comprehensive income.

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NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to Rule 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed “Business — Business strategies” in this prospectus for our Group’s business objectives and strategies.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer assuming the Over-allotment Option is not exercised, after deducting related underwriting fees and estimated expenses in connection with the Share Offer, and assuming an Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share), will be approximately HK\$109.5 million. Our Directors presently intend to apply such net proceeds as follows:

(i) *Procurement of HVAC systems*

Approximately HK\$93.7 million (approximately 85.6% of the net proceeds) will be used for procurement of HVAC systems in respect of projects awarded to us which require procurement of HVAC systems as part of our contract performance.

As at the Latest Practicable Date, we have two projects that have been awarded to us (ST0048 and MT21 relating to two property development projects that are situated in close proximity to the Tai Wai mass transit station and in Tuen Mun town respectively) having an aggregate contract sum of approximately HK\$208.7 million. Additionally, we have submitted tenders on three projects with an aggregate contract sum of HK\$55 million which, according to the contract terms or tender requests (as the case may be), require us to procure HVAC systems. As of the Latest Practicable Date, tender results for these three projects remained pending and is currently anticipated to be available in or around the third quarter of 2018. Based on our current project budgets, it is estimated that related expenditure on HVAC systems procurement for the two projects on hand would amount to approximately HK\$4.6 million and HK\$102.7 million, respectively, while related expenditure on HVAC systems procurement for the three projects pending tender results would amount to approximately HK\$1.8 million, HK\$6.4 million and HK\$3.0 million, respectively. The estimated expenditure on HVAC systems procurement was estimated based on, among other things, the estimated number of HVAC systems required for each project with reference to each of the projects’ tender document and preliminary quotations obtained from relevant HVAC systems suppliers.

At the time of submission of tender document for these projects, we had considered different potential sources of funding (and the estimated timing of utilisation) for the corresponding HVAC systems procurement which included, among other alternatives, bank borrowings (which is expected to require further collaterals and guarantees from our Controlling Shareholders), loans and advances from our Controlling Shareholders, and possible equity fund raising from the Share Offer (which, at the relevant time, was already in contemplation and initial preparation). While we acknowledged that equity fund raising from the Share Offer will involve significant listing expenses, having weighed against the interest burden on our Group and the significant increase in our leverage and gearing and the intensifying reliance on our Controlling Shareholders if bank borrowings and/or loans and advances from our Controlling Shareholders were to be the primary funding source, our Directors consider equity fund raising from the Share Offer would be a more preferred funding option, where debt financing can serve as our Group’s back-up plan should

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funding needs for HVAC systems procurement of any of these projects arise in advance of the Listing. We also considered that equity fund raising through the Share Offer can serve to enhance our Shareholders' base and, with the Listing, would further enhance our corporate profile, accentuate the trust and confidence of major property developers and main contractors and enhance our bargaining power with suppliers and subcontractors (for details please refer to the paragraph headed "Reasons for the Share Offer and the Listing" in this section).

As at the Latest Practicable Date, out of the three projects that we have submitted tenders pending for tender results, we have already attended tender interviews and answered tender queries from our potential customers for two of the projects and is waiting for the final tender results. For the remaining project, we are currently in the process of responding to our potential customer's tender queries. As at the Latest Practicable Date, we have not submitted any tenders with HVAC systems procurement requirement aside from the abovementioned projects.

(ii) Taking out surety bonds

Approximately HK\$5.0 million (approximately 4.5% of the net proceeds) will be allocated for taking out surety bonds as required by projects that we may tender from time to time.

According to the Frost & Sullivan Report, it is not uncommon for HVAC E&M engineering works contracts to require contractors to provide surety bond in the amount of certain percentage (usually 10% to 20%) of the contract sum to their customers to ensure the contractor's due performance and observance of a contract, particularly in cases where the contractor is new to or have not established sufficient prior business relationship with the relevant customer, or with projects involving substantial contract sum. During the Track Record Period, based on the financial resources available to our Group at the relevant time, we only managed to undertake two projects which involved surety bonds with an aggregate amount of approximately HK\$3.1 million, representing 10% of the total contract sum of approximately HK\$31 million. We are required to deposit a sum equal to the amount guaranteed under the relevant surety bond with a bank using our internal financial resources for the issue of the surety bonds. As at the Latest Practicable Date, save for project MT21 which we are expected to take out a surety bond of approximately HK\$1.9 million, we have not yet submitted tender for or been awarded project which is or is expected to involve surety bond requirement. In this respect, we have attempted to negotiate with the relevant customer of this project for a waiver on the surety bond payment should the Listing be successful but no waiver has been granted to us as of the Latest Practicable Date. Subject to the timing of the surety bond posting imposed by our customer for project MT21 which is currently envisaged to be in the second half of 2018, it is our Directors' present intention to finance the said surety bond using the net proceeds from the Share Offer.

Given our strategy to lessen customer concentration and undertake more projects as first-tier subcontractor, we have devoted and will continue to expend efforts in exploring and securing projects from new customers through participation of more competitive tendering from property developers that we have no or less prior business relationship with. According to the Frost & Sullivan Report, it is not uncommon for companies (including listed companies) to be required to post surety bond as part of a condition to secure a tender. It is anticipated that going forward, we will come across more tender opportunities that are in line with our strategy but which will involve property developers that have not had, or had less prior business relationship with us, and/or

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involving projects with substantial contract sum, in which surety bond arrangements will be required. In this connection, to the best of our Directors' knowledge, there are sizeable projects from selected property developers who have a practice of requiring surety bond arrangement (including prominent PRC property developers who acquired land for development in Hong Kong) that may commence tendering process in the near future.

As of the Latest Practicable Date, we have identified three potential HVAC E&M engineering projects with surety bond requirements that we intend to submit tender for competitive bidding. Based on market intelligence so far acquired by us on the potential size of these three projects and the generally applicable percentage of contract sum on surety bond requirement, we initially estimate that the surety bond requirement for these three projects may amount to approximately HK\$5 million in aggregate. Subject to our capacity and resources level at the relevant time and the complexity and expected profitability of the projects, it is our present intention to participate in the competitive tendering of projects that may require posting of surety bond (including but not limited to those referred to above), and utilise the net proceeds to finance surety bond requirement if any of those projects are awarded to us. That said, there is no assurance that our Group will succeed in securing these tenders (please refer to the paragraph headed "Risk Factors — Risk relating to our business — Our revenue is mainly derived from HVAC E&M engineering projects which are non-recurrent in nature and any failure of our Group to secure tender contracts would affect our operations and financial results" in this prospectus for further details).

(iii) General working capital

Approximately HK\$10.8 million (approximately 9.9% of the net proceeds) will be used as our general working capital.

Assuming the Over-allotment Option is not exercised, if the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.60 per Offer Share, the net proceeds we receive from the Share Offer will increase by approximately HK\$11.9 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.50 per Offer Share, the net proceeds we receive from the Share Offer will decrease by approximately HK\$11.9 million. In such events, we intend to increase or decrease respectively, the net proceeds to be used for the above purposes on a pro rata basis. If the Over-allotment Option is exercised in full, the additional net proceeds received from the placing of the additional Shares allotted and issued will be allocated in accordance with the above allocations on a pro rata basis. For details of the Over-allotment Option, please refer to the paragraph headed "Structure of the Share Offer — The Over-allotment Option" in this prospectus.

To the extent that the net proceeds are not immediately applied to the above purposes due to any factors, and to the extent permitted by applicable laws and regulations, we will carefully evaluate the situations and it is our present intention to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licenced banks in Hong Kong.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Share Offer as described above.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR THE SHARE OFFER AND THE LISTING

Our Directors believe that the Share Offer and the Listing will enhance our capital strength and financial capacity to increase our business scale, profitability and market share, further accentuate the trust and confidence of major property developers and main contractors in awarding sizeable and major HVAC E&M engineering services contracts to us, and further solidify our competitiveness in the industry as further elaborated below:

Enhancing our capital strength and financial capacity to carry out our business strategies

As explained in the paragraph headed “Business — Business strategies — Enhance our financial capacity to compete for more HVAC E&M engineering projects and further consolidate our market share” in this prospectus, financial resources capacity is increasingly important to HVAC E&M engineering services providers, particularly as we aim at undertaking new property development projects as a high-tier subcontractor and are faced with increasing contract requirements to procure HVAC systems and/or purchasing surety bonds. Our Directors consider that having sufficient financial resources to tender for and undertake more projects as a first-tier subcontractor will enable us to expand our customer base by servicing projects of a more diversified pool of property developers, improve our financial performance and further consolidate our market share. The Share Offer provides us with immediate additional capital to commence expanding our project pipeline, and to undertake more sizeable projects from a more diversified pool of property developers as a first-tier subcontractor.

During the Track Record Period, we worked on nine projects as first-tier HVAC E&M subcontractor which contributed in aggregate approximately HK\$46.4 million, HK\$22.5 million and HK\$40.3 million to our revenue respectively, and we worked on 46 projects as lower-tier subcontractor which contributed in aggregate approximately HK\$81.6 million, HK\$87.9 million and HK\$85.5 million to our revenue respectively. While our profit margin for installation services only type of projects is generally higher than those requiring both installation services and HVAC system procurement, projects with HVAC system procurement are more typically awarded to first-tier HVAC E&M subcontractors and are generally larger in total contract sum. We believe our strategy of striving to become a first-tier HVAC E&M engineering subcontractor will serve to advance our position in the HVAC E&M value chain, provide us with more control and autonomy in seeking new business opportunities, facilitate us to secure larger contract sums and revenue, capture more market share and further fortify our market position and competitive advantage. Moreover, as a first-tier subcontractor, our direct customers will generally be property developers or their designated main contractors which are generally more established (including financially), and in turn will serve to lessen our credit risk and exposure. We believe having direct business exposure with property developers will also enhance our customer profile and convey a positive message to the market on our strength and capability. We believe these positive attributes will serve to enhance our business and revenue scale to counter any negative impact on our overall profit margin that may result from an increasing percentage contribution from projects involving both installation services and HVAC systems procurement, and facilitate us in achieving growth on our overall profitability (in monetary terms).

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Broadening our funding channels and enhancing our capital structure

As a private group of companies we generally could only rely on our internally generated funds, financial support from our Controlling Shareholders and limited banking facilities for our business and operational needs. We believe the Listing will broaden our funding channels and enable us to tap on Hong Kong's capital market to acquire financing through debt and/or equity issues, as and when necessary and appropriate, to support our planned business expansion and business growth which would be instrumental in elevating our financial performance and enhancing shareholders' return. Our Directors consider that broadening our funding channels will also provide us with added flexibility to achieve a more desirable capital structure in terms of debt-equity and financing cost balance for our long term growth. While we intend to continue utilising banking facilities as a source of funding following the Listing, we also believe we would be in a better position to negotiate with banks and financial institutions for more competitive and advantageous terms as a listed company with an enlarged capital structure.

Accentuate trust and confidence of our customers and enhancing our bargaining power with suppliers and subcontractors

Our Directors consider achieving a listing status to be crucial in effectively competing with our major competitors in the HVAC engineering and services industry, and serve to further differentiate us from them. Our Directors consider that a listing status will significantly promote our market standing and visibility with major property developers and their main contractors in Hong Kong, and attract more tender invitations of quality and sizeable HVAC E&M engineering projects on new property development projects. We are of the view that the transparent financial disclosures and regulatory supervision associated with the Listing, together with our enhanced capital strength and financial capacity, will accentuate the trust and confidence of our customers, and served to be a competitive advantage to which our customers would give due weight in a competitive tendering process. We also believe that the Listing will further enhance our credibility with suppliers and subcontractors, which in turn will improve our bargaining power both in terms of securing quality suppliers and subcontractors as well as negotiating with them for more competitive pricing and payment terms and more accommodating delivery and work schedules, all of which will serve to further enhance our capability in delivering quality HVAC E&M engineering services to our customers.

Serving our genuine funding needs for our business strategies and planned business expansion

Notwithstanding all the aforementioned reasons, our Directors consider our Group has legitimate funding needs in realising our business strategies and materialising our planned business expansion, and the Share Offer serves as an effective and efficient means to address:

- (i) *Business opportunities and growth drivers in view of the industry outlook*

Our Group's business is expected to expand steadily taking into account our projects on hand and the tenders we plan to submit for the year ending 31 December 2018, as well as projects that may come to the market based on the existing land banks and project development plans of property developers in Hong Kong, all of which is expected to provide support for the continuous growth in the HVAC engineering and services industry in the

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coming years. As it is our strategy to expand our business as a first-tier subcontractor, it is essential that we are equipped with sufficient financial resources and funding channels to support the procurement of HVAC systems which is increasingly required by property developers. According to the Frost & Sullivan Report, the expenditure value of E&M engineering and services market in Hong Kong increased from HK\$30.2 billion in 2012 to HK\$48.2 billion in 2017 at a CAGR of 9.8% and is expected to grow to HK\$66.1 billion in 2022, indicating a CAGR of 6.5% from 2017 to 2022. Our Directors envisage that there would be considerable business opportunities and growth drivers to justify our planned expansion plan to compete for more HVAC E&M engineering projects. These business opportunities and drivers include the Government's policy to increase land supply and residential units to relieve the housing shortage (please refer to the paragraph headed "Industry Overview — Competitive landscape of HVAC engineering and services market in Hong Kong" in this prospectus for further details).

(ii) *Funding requirements to finance our projects on hand and capture further business opportunities to consolidate our market position:*

As at the Latest Practicable Date, we had 30 projects on hand with a total awarded contract sum of approximately HK\$570.8 million, of which approximately HK\$186.7 million was recognised as revenue during the Track Record Period. Our Directors consider that given our well-established reputation in HVAC engineering and services industry and our stable business relationship with our customers, we have the ability to grasp the continuous growth in the industry and further increase our market share, which hinges on the availability of our available operational resources including financial resources and manpower resources to support our future business growth.

Historically given our relatively limited financial resources, we tended to gear towards tenders that did not require procurement of HVAC systems or posting of surety bonds to better conserve and manage our limited working capital, which regrettably resulted in our Group forgoing sound business opportunities from time to time. More particularly, during the Track Record Period, there were three project opportunities with HVAC systems procurement requirement with an aggregate tender sum of HK\$117.7 million where we failed to successfully compete under the competitive tender process due to sufficiency of working capital consideration. Additionally, during the Track Record Period and up to the Latest Practicable Date, based on the financial resources available to our Group at the relevant time, we only managed to undertake two projects which involved posting of surety bond with restricted cash held amounting to approximately HK\$3.1 million. Our Directors consider that if we are to expand our business and undertake more HVAC E&M engineering projects (particularly as a first-tier subcontractor), we must continue to enhance our available financial resources and strengthen our liquidity position to be financially ready for tendering and undertaking projects that may require procurement of significant number of HVAC systems and/or posting of surety bond.

Additionally, due to the nature of our business, progress payments from customers for projects undertaken by us are paid to us periodically after our progress works are certified by our customer and generally only commence after commencement of our project execution work. However, our periodic payments for material purchases and other administrative and

FUTURE PLANS AND USE OF PROCEEDS

operating expenditures may not align with our progress payments received, which could result in tightening working capital position from time to time, particularly in periods where the progress of our projects on hand are such that we have multiple projects which require substantial cash outflow but with significantly less cash inflow from receipt of progress payments. Since 1 January 2017 up to 30 April 2018, on the basis of our then projects on hand and their respective execution progress, our monthly working capital outflow, including (without limitation) project related expenses (such as raw material purchases and subcontracting charges), salaries and other administrative expenses and excluding one-off listing related expenses, had ranged from approximately HK\$3.8 million to HK\$19.6 million and averaged to approximately HK\$9.4 million in the 16-month time frame. It is expected that with our planned business expansion, additional project undertakings and continuous post-listing legal and compliance maintenance, our working capital requirements will further increase following the Listing. A sufficient level of working capital buffer is therefore imperative for us to undertake and execute an increasing number of projects concurrently.

(iii) We may not have sufficient surplus cash to support our planned business expansion

As at 31 December 2015, 31 December 2016 and 31 December 2017, we had drawn on our bank overdraft facilities and, if such utilised overdraft facilities were excluded, we would have reported cash and cash equivalents of approximately HK\$(4.1) million, HK\$9.9 million and HK\$(10.8) million respectively. We endeavour to adopt a prudent financial management strategy and strive to maintain at all material times a reasonable level of working capital buffer to support our general operations, funding obligations and capital commitment while providing room for undertaking new projects. However, given our limited funding resources as a private group of companies, we may not have sufficient surplus cash to realise our business strategies and materialise our planned business expansion to the extent and in a timeframe that our Directors consider to be in the interest of our Group without the additional capital to be raised from the Share Offer. It is particularly more so as we strive to become a prime HVAC E&M engineering services provider acting as first-tier subcontractor to service more sizeable projects for a broader portfolio of property developers.

(iv) As a private group it would be difficult for us to obtain bank borrowings without personal guarantees and/or other collaterals provided by our Controlling Shareholders

Our Directors consider that it would not be in the interest of our Group to rely on debt financing that involve personal guarantees and/or collaterals provided by the Controlling Shareholders and their associates for the following reasons:

- (a) It is our long-term strategy to minimise connected transactions and related party transactions in order to carry out our business independently from our Controlling Shareholders, Directors and their associates.
- (b) Continuous reliance on our Controlling Shareholders, Directors and their associates for provision of personal guarantee and other form of financial assistance is a hindrance to our Group in achieving financial independence.

FUTURE PLANS AND USE OF PROCEEDS

As at 31 December 2015, 31 December 2016 and 31 December 2017, our Group's gearing ratio has increased from approximately 45.6% and 46.0% to 54.4%, respectively. Our Directors genuinely believe that it is necessary to maintain a disciplined financial strategy without exposing our Group to aggressive gearing in order to achieve sustainable growth in the long run, and a cash level sufficient to support our Group's existing operations and pursue our business strategies for our long term growth. Given the periodic mis-match of cash inflow and outlay as inherent to the nature of our business operations and having regard to maintaining a prudent financial management strategy, our Directors do not consider relying solely on internally generated funds would be sufficient to support our planned business expansion while at the same time servicing our existing business and operational needs. However, as a private group of companies our Directors consider it relatively impracticable for us to obtain significant bank borrowings at a commercially justifiable term, or at all, without personal guarantees or other forms of collaterals provided by our Controlling Shareholders. In this regard, our Directors consider that it is in the interest of our Group to proceed with equity financing by way of the Share Offer to fund our planned business expansion notwithstanding the associated listing expenses, as opposed to relying primarily on debt financing through bank borrowings having considered the significant increase of our leverage and gearing and the intensifying reliance on our Controlling Shareholders that would otherwise result.

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PUBLIC OFFER UNDERWRITERS

Quasar Securities Co., Limited
China Galaxy International Securities (Hong Kong) Co., Limited
Wellington Financial Limited
Golden Rich Securities Limited
TUS Corporate Finance Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Public Offer Underwriting Agreement (including, among others, the Sole Bookrunner, for itself and on behalf of the Underwriters, and our Company agreeing to the final Offer Price), the Public Offer Underwriters have agreed to subscribe or procure subscribers for the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. The Public Offer Underwriting Agreement is conditional upon and subject to, among others, the Placing Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement are subject to termination with immediate effect by the Sole Bookrunner, in its sole and absolute discretion (for itself and on behalf of the Public Offer Underwriters) by notice orally or in writing to our Company prior to 8:00 a.m. on the Listing Date if:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any event, or series of events (either national or international), in the nature of force majeure (including, without limitation, epidemics, pandemics, outbreaks of diseases (including, without limitation, Severe Acute Respiratory Syndrome (**SARS**), Influenza A (**H5N1**) or swine or avian influenza (**H7N9**) or such related/mutated forms), fire, explosion, flooding, tsunami, earthquake, volcano eruption, ice-storm, calamity, crisis, civil commotion, strikes, lock-outs, riot, public disorder, economic sanction, acts of government, declaration of a national or international emergency or war, outbreak or escalation of hostilities (whether or not war is declared), acts of war, acts of terrorism (whether or not responsibility has been claimed) or acts of God), severe or extended interruption in transportation, in or directly or indirectly affecting Hong Kong,

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Singapore, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan or any other jurisdiction in which any member of our Group conducts business (each a **Relevant Jurisdiction**); or

- (ii) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (iii) any change or development involving a prospective change, or any event or series of events likely to result or representing in any change, or development, or a prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency credit or market conditions (including, without limitation, any conditions affecting stock and bond markets, money and foreign exchange markets, investment markets and credit markets) in or affecting any Relevant Jurisdiction; or
- (iv) any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ National Markets, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or a devaluation of the HK\$ or the RMB against any foreign currencies; or
- (v) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of our Company or of any other members of our Group listed or quoted on a stock exchange or an over-the-counter market; or
- (vi) any general moratorium on commercial banking activities in any Relevant Jurisdiction imposed by any competent governmental authority or any disruption in commercial banking, foreign exchange trading or securities settlement or clearance services in those places; or
- (vii) any new law or any change or development involving a prospective change in existing laws, or any event or circumstance likely to result in a change or development involving a prospective change in the existing laws, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (viii) (A) a change or development involving a prospective change in taxes or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the HK\$ or the RMB against any foreign currencies, a change in the system under which the value of the HK\$ is linked to that of the US\$ or RMB is linked to any foreign currency or currencies), or (B) the implementation of any exchange control or taxation in any Relevant Jurisdiction adversely affecting an investment in the Shares; or

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- (ix) the issue or requirement to issue by our Company of a supplemental or amendment to, this prospectus, the Application Forms or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC, in circumstances where the matter to be disclosed could, in the opinion of the Sole Bookrunner, adversely affect the marketing for or implementation of the Share Offer; or
- (x) any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xi) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, general affairs, business, management, prospects, shareholders’ equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, or performance of any member of our Group (including any litigation or claim of any third party being threatened or instigated against any member of our Group); or
- (xii) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or
- (xiii) a Director 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
- (xiv) the chairman or chief executive officer of our Company vacating his office; or
- (xv) a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xvi) a prohibition on our Company for whatever reason from allotting, issuing or selling, as the case may be, any of the Offer Shares (including the Over-allotment Option) pursuant to the terms of the Share Offer; or
- (xvii) a non-compliance of, among other documents, this prospectus, the Application Forms or any aspect of the Share Offer with the Listing Rules or any other applicable laws; or
- (xviii) any demand by creditors for repayment of indebtedness or an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xix) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or on, any Relevant Jurisdiction,

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which, individually or in the aggregate, in the sole and absolute opinion of the Sole Bookrunner (1) is or will or is likely to be materially adverse to, or materially and prejudicially affects, the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, or performance of our Company or our Group as a whole or to any present or prospective shareholders of our Company in its capacity as such, or (2) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing, or (3) makes it or will make it or is likely to make it inadvisable or inexpedient or incapable or impracticable for the Share Offer to proceed or to market the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by, among other documents, this prospectus and the Application Forms, or (4) has or will have or is likely to have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable, inadvisable or impracticable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Sole Bookrunner after the date of the Public Offer Underwriting Agreement:
 - (i) that any statement contained in this prospectus and/or the Application Forms and/or any announcement or advertisement issued by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) was, in the sole and absolute opinion of the Sole Bookrunner, when it was issued, or has become, untrue, incorrect, incomplete or misleading, or that any forecast, expression of opinion, intention or expectation expressed in, among other documents, this prospectus and/or the Application Forms and/or any announcements or advertisements, communications or other documents issued by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto) was, when it was made, not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, in any material respect; or
 - (ii) any contravention by any member of our Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Company Law of the PRC or the Listing Rules; or
 - (iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Share Offer with the Listing Rules or any other applicable law or regulation; or
 - (iv) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material misstatement in any of this prospectus and/or the Application Forms or constitute a material omission therefrom; or

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- (v) any breach of any of the obligations of our Company or the Controlling Shareholders, or any of them under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (vi) any event, act or omission which gives or is likely to give rise to any liability pursuant to the Public Offer Underwriting Agreement; or
- (vii) any material adverse change or prospective material adverse change or development involving a prospective adverse change in the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, or performance of our Group as a whole; or
- (viii) any breach or alleged breach of any of the warranties or undertakings of the Public Offer Underwriting Agreement, or any of (or any event rendering any of) the warranties or undertakings of the Public Offer Underwriting Agreement is (or would when repeated be) untrue, incorrect, incomplete or misleading; or
- (ix) any litigation or dispute or potential litigation or dispute, which would materially affect the operation, financial condition, reputation or composition of the board of our Company and our Group; or
- (x) that a significant portion of the orders in the bookbuilding process at the time when the Placing Underwriting Agreement is entered into have been withdrawn, terminated, cancelled or otherwise not fulfilled; or
- (xi) that the investment commitments by any cornerstone investors (if any) after signing of agreements with such cornerstone investors have been withdrawn, terminated, cancelled or otherwise not fulfilled; or
- (xii) that the grant or agreement to grant by the Listing Committee of the Listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and Shares issuable upon exercise of options which may be granted under the Share Option Scheme) (the "**Admission**") is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (xiii) that our Company withdraws this prospectus (or any other documents used in connection with the contemplated offer of the Shares) or the Share Offer; or
- (xiv) that any expert whose consent is required for the issue of this prospectus with inclusion of its reports and/or letters (as the case may be) and references to its name in the form and context in which they appear has withdrawn its consent to the issue of this prospectus.

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Undertakings to the Stock Exchange under the Listing Rules

By us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, except pursuant to the Capitalisation Issue, the Share Offer, the Over-allotment Option and the Share Option Scheme as described and contained in this prospectus, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 10.08(1) to (5) of the Listing Rules.

By the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange that except pursuant to the Share Offer, the Over-allotment Option and any lending of Shares pursuant to the Stock Borrowing Agreement, he or it shall not and shall procure that the relevant registered holder(s) not to:

- in the period commencing from the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any of the Shares or securities of our Company in respect of which he or it is shown by this prospectus to be the beneficial owner; or
- in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any of the Shares or securities of our Company referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be the Controlling Shareholder.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have further undertaken to the Stock Exchange and our Company that, within a period commencing from the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on a date which is 12 months from the Listing Date, he or it will:

- (a) when he or it pledges or charges any Shares or securities of our Company beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us in writing of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and

UNDERWRITING

- (b) when he or it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform us in writing of any such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and 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.

Undertakings pursuant to the Public Offer Underwriting Agreement

By us

Our Company has undertaken that, during the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure that our subsidiaries not to, without the prior written consent of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) 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 encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, 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 any shares of such other member of our Group, as applicable) or deposit any share capital or other securities of our Company, as applicable, 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 Shares or any other securities of our Company or any shares or other securities of such other member of our Group, 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 any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) and (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities of our

UNDERWRITING

Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not such issue of the Shares or securities will be completed within such period),

provided that the foregoing restrictions shall not apply to (i) the issue of Shares by our Company pursuant to the Capitalisation Issue, the Share Offer and the Over-allotment Option; or (ii) the grant by our Company of any options and the issue by our Company of Shares pursuant to the exercise of the options to be granted under the Share Option Scheme.

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

By the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of our Company, the Sole Bookrunner, the Public Offer Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules, save for the lending of Shares pursuant to the Stock Borrowing Agreement:

- (a) he or it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase 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 any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depository in connection with the issue of depository receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (a)(i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or 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);
- (b) he or it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect 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, he or it will cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company; and

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- (c) until the expiry of the Second Six-Month period, in the event that he or it enters into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, he or it will take all reasonable steps to ensure that he or it will not create a disorderly or false market in the securities of our Company.

The Placing

Placing Underwriting Agreement

In connection with the Placing, it is expected that the Company will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters. Under the Placing Underwriting Agreement, subject to the conditions set out therein, the Placing Underwriters would severally agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the Placing. In the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

Underwriting Commissions and Expenses

The Underwriters are expected to receive underwriting commissions of 3.5% of the Offer Price of all the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. In addition, our Company may, at its absolute discretion, pay the Underwriters an incentive fee of up to 1.5% of the Offer Price of all the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option). Such underwriting commissions and incentive fee payable to the Underwriters, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer, are currently estimated to be approximately HK\$28.0 million in aggregate (based on an Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share, and on the assumption that the Over-allotment Option is not exercised), which are to be borne by our Company. The Public Offer Underwriters will not receive any underwriting commission regarding any Offer Shares re-allocated from the Placing to the Public Offer or re-allocated from the Public Offer to the Placing.

INDEMNITY

Each of our Company and the Controlling Shareholders (collectively the “**Indemnity Covenantors**”) has agreed to indemnify the Public Offer Underwriters against certain losses which the Public Offer Underwriters may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by the Indemnity Covenantors of the Public Offer Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their obligations under the relevant Underwriting Agreements, none of the Underwriters has any shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

STRUCTURE OF THE SHARE OFFER

STRUCTURE OF THE SHARE OFFER

The Share Offer consists of the Public Offer and the Placing.

Quasar Securities Co., Limited is the Sole Bookrunner to the Share Offer.

An aggregate of 25,000,000 Shares have been initially allocated to the Public Offer for subscription, subject to re-allocation as mentioned below and under the Listing Rules. An aggregate of 225,000,000 Shares are initially offered under the Placing for subscription, subject to re-allocation and the Over-allotment Option as mentioned below and under the Listing Rules.

Investors may apply for Public Offer Shares under the Public Offer or apply for or indicate an interest for Placing Shares under the Placing, but may not do both. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Public Offer Underwriters will take all reasonable steps to identify any multiple applications under the Public Offer and the Placing which are not allowed and are bound to be rejected. References in this prospectus to applications, the Application Forms, application monies or the procedure for application relate solely to the Public Offer.

PRICING AND ALLOCATION

The Offer Price will not be more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Applicants for the Public Offer Shares will be required to pay the maximum indicative Offer Price of HK\$0.60 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$2,424.18 for each board lot of 4,000 Shares. If the final Offer Price is less than the maximum indicative Offer Price, arrangements will be made to refund any excess amount to the applicants, without interest.

The Placing Underwriters are soliciting from prospective professional, institutional, corporate and other investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of 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, and to cease on or around the Price Determination Date.

If, based on the level of interest expressed by prospective professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Shares during the book-building process, the Sole Bookrunner (for itself and on behalf of the Underwriters) considers it appropriate and with our consent, the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time on or 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, cause to be published on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.manshungroup.com.hk notice of the reduction in the number of Offer Shares being offered under the Share Offer and/or the

STRUCTURE OF THE SHARE OFFER

indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set forth in this prospectus and any other financial information which may change as a result of such reduction. In addition, we will:

- (i) issue a supplemental prospectus updating investors of the reduction in the indicative offer price together with an update of all financial and other information in connection with such change;
- (ii) extend the period under which the offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and
- (iii) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

Upon issue of such a notice and supplemental prospectus, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Sole Bookrunner (for itself and on behalf of the Underwriters) and us, will be fixed within such revised range. Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

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 being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

In the event there is a reduction in the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, they will be allowed to subsequently withdraw their applications. However, if the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked. In the absence of any such notice so published, the Offer Price, if agreed upon with us and the Sole Bookrunner, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

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 are expected to be announced on Tuesday, 10 July 2018 through a variety of channels as described in the paragraph headed “How to Apply for the Public Offer Shares — 11. Publication of results” in this prospectus.

The Offer Price is expected to be fixed by the Price Determination Agreement between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or before Wednesday, 4 July 2018, or such later date or time as may be agreed by the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company.

STRUCTURE OF THE SHARE OFFER

If, for any reason, the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before Wednesday, 4 July 2018 or such other date as may be agreed by the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company, the Share Offer will not proceed and will lapse.

CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Public Offer Shares will be conditional upon:

- (i) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue, any Shares to be issued pursuant to the Share Offer and the Capitalisation Issue, and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the agreement on the final Offer Price between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company being entered into on the Price Determination Date;
- (iii) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and
- (iv) the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement and the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms and conditions of the respective agreements,

in each case, on or before the dates and times specified in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is the 30th day after the date of this prospectus.

If any of the above conditions has not been fulfilled or waived prior to the times and date(s) specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by our Company on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.manshugroup.com.hk on the next day following such lapse. In such event, all application monies will be refunded, **without interest**. The terms on which the application monies will be refunded are set forth under the paragraph headed "How to Apply for the Public Offer Shares — 13. Refund of application monies" in this prospectus and the section headed "Refund of your money" in the Application Forms. In the meantime, all application monies received from the Public Offer will be held in a separate bank account (or separate bank accounts) with the receiving banker or other licenced bank(s) in Hong Kong.

STRUCTURE OF THE SHARE OFFER

THE PUBLIC OFFER

We are initially offering 25,000,000 Shares under the Public Offer, at the Offer Price, representing 10% of the total number of the Offer Shares being offered in the Share Offer, for subscription by way of public offer in Hong Kong, subject to the re-allocation as mentioned below and under the Listing Rules. The Public Offer is fully underwritten by the Public Offer Underwriters (subject to the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company agreeing to the final Offer Price). Applicants for the Public Offer Shares are required to pay on application the maximum indicative Offer Price of HK\$0.60 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he has not taken up and will not indicate an interest to take up any Placing Shares or has not otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected. The Public Offer will be subject to the conditions stated above under the paragraph headed "Conditions of the Share Offer" in this section.

The total number of the Public Offer Shares to be allotted and issued may change as a result of the re-allocation as mentioned below.

Basis of allocation of the Public Offer Shares

For allocation purposes only, the Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 12,500,000 Public Offer Shares and Pool B will comprise 12,500,000 Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applications for more than 12,500,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares).

Multiple or suspected multiple applications under the Public Offer and any application for more than 100% of Public Offer Shares initially available under pool A or pool B for subscription will be liable to be rejected. Each applicant under the Public Offer will also be required to give an undertaking

STRUCTURE OF THE SHARE OFFER

and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

THE PLACING

We are initially offering 225,000,000 Shares at the Offer Price, representing 90% of the total number of the Offer Shares being offered in the Share Offer, for subscription by way of the Placing, subject to re-allocation and the Over-allotment Option as mentioned below and under the Listing Rules. Investors subscribing for the Placing Shares are also required to pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. It is expected that the Placing Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the Placing Shares at the Offer Price with selected professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Shares. 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.

All decisions concerning the allocation of the Placing Shares to prospective placees pursuant to the Placing will be made on the basis of, and by reference to, a number of factors including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is expected or likely to purchase further Shares, or hold or sell our Shares, after the Listing Date. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base for the benefit of our Company. In addition, our Company and the Sole Bookrunner will use its best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the Placing Shares.

The Sole Bookrunner (acting in such capacity and as an Underwriter) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Sole Bookrunner so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Public Offer Shares under the Public Offer.

The total number of the Placing Shares to be allotted and issued may change as a result of re-allocation mentioned below and/or any re-allocation of the unsubscribed Public Offer Shares to the Placing as mentioned above under the paragraph headed "The Public Offer" in this section.

STRUCTURE OF THE SHARE OFFER

RE-ALLOCATION BETWEEN THE PLACING AND THE PUBLIC OFFER

Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are not fully subscribed, the Sole Bookrunner (for itself and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing in such amount as the Sole Bookrunner (for itself and on behalf of the Underwriters) deems appropriate;
 - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times of the number of Offer Shares initially available under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 50,000,000, representing 20% of the Offer Shares initially available under the Share Offer;
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available under the Public Offer, then 50,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 75,000,000, representing 30% of the Offer Shares initially available under the Share Offer;
 - (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available under the Public Offer, then 75,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 100,000,000, representing 40% of the Offer Shares initially available under the Share Offer; and
 - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available under the Public Offer, then 100,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 125,000,000, representing 50% of the Offer Shares initially available under the Share Offer.

STRUCTURE OF THE SHARE OFFER

- (b) Where the Placing Shares are not fully subscribed:
- (i) if the Public Offer Shares are not fully subscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed irrespective of the number of times the number of Offer Shares initially available under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 50,000,000, representing 20% of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (i) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (ii) the Placing Shares are not fully subscribed and the Public Offer Shares are oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.5 per Offer Share) stated in this prospectus.

In addition, the Sole Bookrunner may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 50,000,000 Offer Shares).

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced. In addition, the Sole Bookrunner may in its sole and absolute discretion reallocate Offer Shares of the Placing to the Public Offer to satisfy valid applications under the Public Offer. The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Bookrunner.

Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Tuesday, 10 July 2018.

THE OVER-ALLOTMENT OPTION

In connection with the Share Offer, we intend to grant the Over-allotment Option to the Placing Underwriters, exercisable by the Sole Bookrunner (for itself and on behalf of the Placing Underwriters). The Over-allotment Option gives the Sole Bookrunner the right exercisable at any time 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 up to an aggregate of 37,500,000 new Shares, representing in aggregate 15% of the initial size of the Share Offer at the Offer Price solely to cover over-allocations in the Placing, if any. The Sole Bookrunner may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise

STRUCTURE OF THE SHARE OFFER

of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Sole Bookrunner exercises the Over-allotment Option in full, the additional Shares will represent approximately 3.6% of our enlarged share capital following the completion of the Capitalisation Issue and the Share Offer (without taking into account the Shares which may fall to be allotted and issued pursuant to the options to be granted under the Share Option Scheme). In the event that the Over-allotment Option is exercised, an announcement will be made.

In order to facilitate settlement of over-allocations in connection with the Placing, Prime Pinnacle and the Stabilising Manager will enter into the Stock Borrowing Agreement. Under the Stock Borrowing Agreement, Prime Pinnacle will agree with the Stabilising Manager that, if requested by the Stabilising Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilising Manager up to 37,500,000 Shares held by Prime Pinnacle by way of stock lending, in order to cover over-allocations in connection with the Placing.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that such stock borrowing arrangement will only be effected by the Stabilising Manager for the purpose of settling over-allocations of Placing Shares in connection with the Placing and covering any short position prior to the exercise of the Over-allotment Option. The maximum number of Shares to be borrowed from Prime Pinnacle under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option. The same number of Shares so borrowed is to be returned to Prime Pinnacle or its nominees, as the case may be, not later than the third business day following the earlier of (i) the day on which the Over-allotment Option is exercised in full, or (ii) the last day on which the Over-allotment Option may be exercised by the Stabilising Manager. The stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefits will be made to Prime Pinnacle by the Stabilising Manager or any of the Placing Underwriters in relation to such stock borrowing arrangement.

STABILISING ACTION

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 newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the initial public offer price.

In connection with the Share Offer, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws, rules and regulations of Hong Kong, over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing after the last day of the lodging of applications under the Public Offer. 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. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any stabilising activity. Such stabilisation, if commenced, 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 must be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated

STRUCTURE OF THE SHARE OFFER

will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being a maximum of 37,500,000 new Shares, which represent 15% of the Shares initially available under the Share Offer.

The Stabilising Manager or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our Shares; and/or
- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate our Shares; or
 - (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
 - (B) stock borrowing;
 - (C) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;
 - (D) sell or agree to sell any of our Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or
 - (E) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B), (ii)(C) or (ii)(D) above.

The Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager or any person acting for it, which may include a decline in the market price of our Shares.

Stabilisation cannot be used to support the price of our Shares for longer than the stabilisation period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Public Offer. The stabilisation period is expected to expire on 3 August 2018. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilising period in accordance with the Securities and Futures (Price Stabilising) Rules of the SFO.

STRUCTURE OF THE SHARE OFFER

Any stabilising action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilisation period. Stabilisation bids or market purchases effected in the course of the stabilising action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

UNDERWRITING ARRANGEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Sole Bookrunner (for itself and on behalf of the Underwriters) and us on the Price Determination Date and subject to the other conditions set out in the paragraph headed “Conditions of the Share Offer” above.

We expect, shortly after determination of the Offer Price on the Price Determination Date, to enter into the Placing Underwriting Agreement relating to the Placing.

UNDERWRITING ARRANGEMENTS, THE PUBLIC OFFER UNDERWRITING AGREEMENT AND THE PLACING UNDERWRITING AGREEMENT ARE SUMMARISED IN THE SECTION HEADED “UNDERWRITING” IN THIS PROSPECTUS.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. on 11 July 2018 (Hong Kong time), it is expected that dealings in the Shares on the Main Board will commence at 9:00 a.m. on 11 July 2018. The Shares will be traded in board lots of 4,000 Shares each. The stock code for our Shares is 1746. We will not issue temporary documents of title.

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** service 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 Sole Sponsor, the Sole Bookrunner, the **HK eIPO White Form** Service Provider and their respective agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor and the Sole Bookrunner may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

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;
- a connected person or a core connected person (as defined in the Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Share Offer;
- an associate or a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or indicated an interest in 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 Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018 from:

- (i) the following address of the Public Offer Underwriters:

Quasar Securities Co., Limited	Unit A, 12/F, Harbour Commercial Building 122–124 Connaught Road, Central Hong Kong
China Galaxy International Securities (Hong Kong) Co., Limited	20th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Wellington Financial Limited	Unit B, 10/F, 128 Wellington Street, Central Hong Kong
Golden Rich Securities Limited	22/F, Siu On Centre, 188 Lockhart Road Wan Chai, Hong Kong
TUS Corporate Finance Limited	15/F, Shanghai Commercial Bank Tower 12 Queen's Road Central, Central Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (ii) any of the following branches of Bank of China (Hong Kong) Limited, the Receiving Bank:

District	Branch Name	Address
Hong Kong Island	Johnston Road Branch	152–158 Johnston Road Wan Chai
	King’s Road Branch	131–133 King’s Road North Point
Kowloon	Mei Foo Mount Sterling Mall Branch	Shop N47–49 Mount Sterling Mall Mei Foo Sun Chuen
New Territories	Yuen Long Branch	102–108 Castle Peak Road Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- 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 — MAN SHUN GROUP PUBLIC OFFER” for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Thursday, 28 June 2018	—	9:00 a.m. to 5:00 p.m.
Friday, 29 June 2018	—	9:00 a.m. to 5:00 p.m.
Saturday, 30 June 2018	—	9:00 a.m. to 1:00 p.m.
Tuesday, 3 July 2018	—	9:00 a.m. to 5:00 p.m.
Wednesday, 4 July 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 Wednesday, 4 July 2018, the last application day or such later time as described in “10. Effect of bad weather on the opening of the application lists” in this section.

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 submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor and/or the Sole Bookrunner (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles;
- (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 Sole Bookrunner, the Underwriters, their respective directors, officers, employees, agents, affiliates or advisors or any other party 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 Hong Kong Branch Share Registrar, the Receiving Bank, the Sole Sponsor, the Sole Bookrunner, the Underwriters and/or their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Share Offer 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 Sole Bookrunner and the Underwriters nor any of their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Share Offer will breach any

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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, any acceptance of it and the resulting contract will be governed and construed in accordance with 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-Auto 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, our Directors, the Sole Sponsor, the Sole Bookrunner and the 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, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the **HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 28 June 2018 until 11:30 a.m. on Wednesday, 4 July 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 4 July 2018 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” below.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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 (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Bookrunner and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the 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, the Sole Sponsor, the Sole Bookrunner and the 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 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 Sole Sponsor, the Sole Bookrunner, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other party involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
 - agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank(s), the Sole Sponsor, the Sole Bookrunner, the Underwriters and/or their respective advisors 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 the 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 (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles; 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 4,000 Public Offer Shares. Instructions for more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 28 June 2018	—	9:00 a.m. to 8:30 p.m. ⁽¹⁾
Friday, 29 June 2018	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Saturday, 30 June 2018	—	8:00 a.m. to 1:00 p.m. ⁽¹⁾
Tuesday, 3 July 2018	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 4 July 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 Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 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 Wednesday, 4 July 2018, the last application day or such later time as described in “10. Effect of bad weather on the opening of the application lists” in this section.

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 Branch Share Registrar, the Receiving Bank, the Sole Bookrunner, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in 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 Wednesday, 4 July 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** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 4,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, 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, please refer to the paragraph headed “Structure 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 Wednesday, 4 July 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 Wednesday, 4 July 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, 10 July 2018 on our Company’s website at www.manshungle.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.manshungle.com.hk and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m., Tuesday, 10 July 2018;
- from the designated results of allocations website 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, 10 July 2018 to 12:00 midnight on Monday, 16 July 2018;
- by telephone inquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 10 July 2018 to Friday, 13 July 2018 (excluding Saturday, Sunday and public holiday);

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 10 July 2018 to Thursday, 12 July at all the Receiving Bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. For further details, please refer to the section headed "Structure 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Sole Bookrunner, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing 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** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Sole Sponsor and/or the Sole Bookrunner believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.60 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 of the Share Offer —

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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, 10 July 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

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(s), if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Tuesday, 10 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, 11 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 Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 10 July 2018 or such other date as notified by us on the websites of the Stock Exchange at www.hkexnews.hk and of our Company at www.manshungroup.com.hk.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched 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, 10 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, 10 July 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 10 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "11. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Tuesday, 10 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 Service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, 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, 10 July 2018, or such other date as notified by our Company on the websites of the Stock Exchange at www.hkexnews.hk and of our Company at www.manshugroup.com.hk as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 10 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 dispatched 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 dispatched 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 10 July 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "11. Publication of results" above on Tuesday, 10 July 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 10 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, 10 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, 10 July 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

dealings in our 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 our Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-56, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MAN SHUN GROUP (HOLDINGS) LIMITED AND CHINA GALAXY INTERNATIONAL SECURITIES (HONG KONG) CO., LIMITED

Introduction

We report on the historical financial information of Man Shun Group (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-56, which comprises the consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017, the statement of financial position of the Company as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2015, 2016 and 2017 (the "Relevant Periods"), 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-3 to I-56 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 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 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 preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 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 purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015, 2016 and 2017 and the Company's financial position as at 31 December 2017 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 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 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-3 have been made.

Dividends

We refer to Note 21(b) to the Historical Financial Information which contains information about the dividends paid by the Company and its subsidiaries in respect of the Relevant Periods.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its incorporation.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 June 2018

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

1 Consolidated statements of profit or loss and other comprehensive income

(Expressed in Hong Kong dollars)

	Note	Year ended 31 December		
		2015 \$'000	2016 \$'000	2017 \$'000
Revenue	4	128,030	110,467	125,846
Cost of services		<u>(91,121)</u>	<u>(72,294)</u>	<u>(74,120)</u>
Gross profit		36,909	38,173	51,726
Other income	5	1,530	1,495	826
Administrative expenses		(13,006)	(17,850)	(19,624)
Listing expenses		—	—	(3,872)
Finance costs	6(a)	<u>(548)</u>	<u>(537)</u>	<u>(322)</u>
Profit before taxation	6	24,885	21,281	28,734
Income tax	7(a)	<u>(4,169)</u>	<u>(3,578)</u>	<u>(5,330)</u>
Profit and total comprehensive income for the year		<u>20,716</u>	<u>17,703</u>	<u>23,404</u>
Earnings per share	10			
— Basis		<u>103.58</u>	<u>88.52</u>	<u>117.02</u>
— Diluted		<u>103.58</u>	<u>88.52</u>	<u>117.02</u>

The accompanying notes form part of the Historical Financial Information.

2 Consolidated statements of financial position
(Expressed in Hong Kong dollars)

	Note	At 31 December		
		2015 \$'000	2016 \$'000	2017 \$'000
Non-current assets				
Plant and equipment	11	2,104	3,314	1,592
Deferred tax assets	19(b)	331	551	—
		<u>2,435</u>	<u>3,865</u>	<u>1,592</u>
Current assets				
Trade and other receivables	12	17,875	11,314	40,825
Contract assets	13	14,892	15,677	29,194
Amounts due from directors	14	18,947	13,566	14,673
Amounts due from related companies	24(c)	10,498	—	—
Pledged bank deposits	15(d)	1,250	1,252	—
Cash at bank and in hand	15(a)	4,190	15,652	1,838
		<u>67,652</u>	<u>57,461</u>	<u>86,530</u>
Current liabilities				
Trade and other payables	16	8,191	9,958	11,070
Contract liabilities	13	7,347	7,063	1,707
Amount due to a related company	24(c)	30	—	—
Bank loans and overdrafts	17	13,014	9,609	25,581
Obligations under finance leases	18	613	757	327
Tax payable	19(a)	6,574	7,995	724
		<u>35,769</u>	<u>35,382</u>	<u>39,409</u>
Net current assets		<u>31,883</u>	<u>22,079</u>	<u>47,121</u>
Total assets less current liabilities		<u>34,318</u>	<u>25,944</u>	<u>48,713</u>
Non-current liabilities				
Obligations under finance leases	18	1,299	1,036	298
Deferred tax liabilities	19(b)	322	135	238
		<u>1,621</u>	<u>1,171</u>	<u>536</u>
Net assets		<u>32,697</u>	<u>24,773</u>	<u>48,177</u>
Capital and reserves				
Share capital	21	2	2	—*
Reserves		32,695	24,771	48,177
Total equity		<u>32,697</u>	<u>24,773</u>	<u>48,177</u>

* The balance represents amount less than \$1,000.

The accompanying notes form part of the Historical Financial Information.

3 Statement of financial position of the Company
(Expressed in Hong Kong dollars)

	<i>Note</i>	At 31 December 2017 \$'000
Non-current assets		
Investments in subsidiaries		<u>2</u>
Current liabilities		
Amounts due to shareholders		<u>88</u>
NET LIABILITIES		<u><u>(86)</u></u>
CAPITAL AND RESERVE		
Share capital	<i>21(c)</i>	—*
Share premium	<i>21(g)</i>	2
Accumulated loss		<u>88</u>
TOTAL DEFICIT		<u><u>(86)</u></u>

* *The balances represent amount less than \$1,000.*

The accompanying notes form part of the Historical Financial Information.

4 Consolidated statements of changes in equity*(Expressed in Hong Kong dollars)*

	Note	Share capital \$'000	Merger reserve \$'000 (Note 21(d))	Share premium \$'000	Retained profits \$'000	Total equity \$'000
At 1 January 2015		1,010	—	—	19,427	20,437
Changes in equity for 2015:						
Issue of shares	21(c)	1,002	—	—	—	1,002
Profit and total comprehensive income for the year		—	—	—	20,716	20,716
Dividend paid	21(b)	—	—	—	(9,458)	(9,458)
Arising from reorganisation	21(c)	(2,010)	2,010	—	—	—
At 31 December 2015 and 1 January 2016		2	2,010	—	30,685	32,697
Changes in equity for 2016:						
Profit and total comprehensive income for the year		—	—	—	17,703	17,703
Dividends paid	21(b)	—	—	—	(25,627)	(25,627)
At 31 December 2016 and 1 January 2017		2	2,010	—	22,761	24,773
Changes in equity for 2017:						
Profit and total comprehensive income for the year		—	—	—	23,404	23,404
Arising from reorganisation	21(c)	(2)	—	2	—	—
At 31 December 2017		—*	2,010	2	46,165	48,177

* *The balance represents amount less than \$1,000.*

The accompanying notes form part of the Historical Financial Information.

5 Consolidated cash flow statements
(Expressed in Hong Kong dollars)

	Note	Year ended 31 December		
		2015 \$'000	2016 \$'000	2017 \$'000
Operating activities				
Cash generated from/(used in) operations	15(b)	29,172	29,902	(16,109)
Hong Kong Profits Tax paid		<u>(1,160)</u>	<u>(2,564)</u>	<u>(11,947)</u>
Net cash generated from/(used in) operating activities		<u>28,012</u>	<u>27,338</u>	<u>(28,056)</u>
Investing activities				
Payment for purchase of plant and equipment		(100)	(1,700)	(117)
Proceeds from disposal of plant and equipment		750	356	919
(Increase)/decrease in pledged bank deposits		(1,250)	—	1,252
Interest received		<u>1</u>	<u>—</u>	<u>5</u>
Net cash (used in)/generated from investing activities		<u>(599)</u>	<u>(1,344)</u>	<u>2,059</u>
Financing activities				
Payment for listing expenses		—	—	(1,192)
Proceeds from new bank loans		1,202	1,400	11,696
Repayment of bank loans		(1,419)	(2,213)	(2,646)
Capital element of finance lease rentals paid		(951)	(812)	(1,168)
Interest element of finance lease rentals paid		(49)	(95)	(57)
Interest on bank loans and overdrafts paid		(499)	(442)	(265)
Proceeds from issue of share capital		1,000	—	—
Decrease in amount due from related companies		1,161	—	—
Decrease in amount due to a related company		(689)	—	—
Advances to directors		(16,464)	(1,151)	(1,107)
Dividend paid		<u>(9,458)</u>	<u>(8,627)</u>	<u>—</u>
Net cash (used in)/generated from financing activities		<u>(26,166)</u>	<u>(11,940)</u>	<u>5,261</u>
Net increase/(decrease) in cash and cash equivalent		1,247	14,054	(20,736)
Cash and cash equivalents at the beginning of the year		<u>(5,379)</u>	<u>(4,132)</u>	<u>9,922</u>
Cash and cash equivalents at the end of the year	15(a)	<u><u>(4,132)</u></u>	<u><u>9,922</u></u>	<u><u>(10,814)</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Man Shun Group (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 11 April 2017 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company and has not carried on any business since the date of its incorporation. The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of installation of heat, ventilation and air-conditioning system (the “HVAC Business”) in Hong Kong.

Prior to the incorporation of the Company, the HVAC Business was carried out by Man Tung Air-conditioning E&M Limited, Man Tung Air-conditioning Works Limited and Shun Tung Engineering Company Limited (the “Operating Subsidiaries”), all of which were under the joint control of Mr. Cheung Yuen Tung (“Mr. Tony Cheung”) and Mr. Cheung Yuen Chau (“Mr. Gary Cheung”) (the “Cheung’s Family” or the “Controlling Shareholders”). To rationalise the corporate structure in preparation of the listing of the Company’s share on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Group underwent a reorganisation (“the Reorganisation”) as detailed in the section headed “History, Development and Reorganisation” in the Prospectus. Upon completion of the Reorganisation on 16 June 2017, the Company became the holding company of the Group. As the Reorganisation primarily involved only inserting a newly formed entity with no substantive operations as the new holding company between the Controlling Shareholders and the Operating Subsidiaries, there has been no change in the ultimate control and there were no substantive changes in business and operations of the companies now comprising the Group. As the control is not transitory and, consequently, there was a continuation of risks and benefits to the Cheung’s Family, the Historical Financial Information has been prepared and presented using the merger basis of accounting as if the Group has always been in existence. The net assets of the companies taking part in the Reorganisation are consolidated using the book values from the Controlling Shareholders’ perspective.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods as set out in this report include the financial performance and cash flows of the companies now comprising the Group (or where the companies were incorporated at a date later than 1 January 2015, for the period from the date of incorporation to 31 December 2017) as if the current group structure had been in existence and remained unchanged throughout the Relevant Periods. The consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as at those dates as if the current group structure had been in existence as at the respective dates. Intra-group balances and transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Company, Treasure Express Limited and City Flourish Limited as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the other subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Upon completion of the Reorganisation and as at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
Treasure Express Limited	Republic of Seychelles/ 29 September 2015	100 ordinary shares of US\$1 each	100%	—	Investment holding
City Flourish Limited	Republic of Seychelles/ 29 September 2015	100 ordinary shares of US\$1 each	100%	—	Investment holding
Man Tung Air-conditioning E&M Limited (<i>Note</i>)	Hong Kong/ 9 April 2008	1,000,000 ordinary shares	—	100%	HVAC Business
Man Tung Air-conditioning Works Limited (<i>Note</i>)	Hong Kong/ 19 November 1996	1,000,000 ordinary shares	—	100%	HVAC Business
Shun Tung Engineering Company Limited (<i>Note</i>)	Hong Kong/ 6 November 1998	10,000 ordinary shares	—	100%	HVAC Business

The following list contains details of the companies in the Historical Financial Information that are subject to audit during the Relevant Periods and the name of the respective auditors.

Company name	Financial period	Statuary auditor
Man Tung Air-conditioning E&M Limited	For the year ended 31 December 2015	T.S. Lam & Co.
Man Tung Air-conditioning E&M Limited	For the year ended 31 December 2016	Lai Yiu Hong Certified Public Accountants (Practising) Hong Kong
Man Tung Air-conditioning Works Limited	For the year ended 31 December 2015	T.S. Lam & Co.
Man Tung Air-conditioning Works Limited	For the year ended 31 December 2016	Lai Yiu Hong Certified Public Accountants (Practising) Hong Kong
Shun Tung Engineering Company Limited	For the year ended 31 December 2015	Ng To and Tse CPA & Co.
Shun Tung Engineering Company Limited	For the year ended 31 December 2016	Lai Yiu Hong Certified Public Accountants (Practising) Hong Kong

Note: As at the date of this report, no audited financial statements of these companies in respect of the financial year ended 31 December 2017 are available.

All companies now comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods and early adopts HKFRS 15, *Revenue from contracts with customers* on a fully retrospective basis. The Group has not adopted any other new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2017. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2017 and which are not yet adopted by the Group are set out in Note 26.

The Group early adopts HKFRS 15 with a date of initial application of 1 January 2015. The Group's accounting policies with respect to revenue recognition are set out in Note 2.

HKFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. 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 judgments and estimates.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in Hong Kong dollars, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis.

(b) Use of estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is included in the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see Note 2(f)).

(d) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(f)):

Gains or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Leasehold improvements	shorter of 5 years or unexpired terms of lease
— Furniture and fixtures	5 years
— Computer and office equipment	5 years
— Motor vehicles	4 years

Where parts of an item of plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(d). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(f). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(f) Impairment of assets**(i) Impairment of trade and other receivables**

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Contracts with customers

Contracts with customers are contracts specifically negotiated with a customer. Its performance obligation is to construct an asset or a group of assets where its control is transferred over time. The accounting policy for contract revenue is set out in Note 2(o). When the outcome of a construction contract can be estimated reliably, contract revenue are recognised by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Contracts with customers in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as the "Contract assets" (as an asset) or the "Contract liabilities" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables".

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(n)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Financial guarantees issued provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(n)(ii) if and when (i) it becomes probable that the holder of the guarantee will claim upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a product or service to a customer. “Control” refers to the customer’s ability to direct the use of and obtain substantially all of the remaining benefits from an asset.

(i) Contract revenue

Revenue of products and services transferred over time is recognised progressively based on the contract costs incurred to date as a percentage of total forecast costs to depict the transfer of control of the goods or services to the customer. The Group recognises revenue over time only if it can reasonably measure its progress toward complete satisfaction of the performance obligation. However, if the Group cannot reasonably measure the outcome but expects to recover the costs incurred in satisfying the performance obligation, then it recognises revenue to the extent of the costs incurred.

Revenue of products transferred at a point in time is recognised when goods are delivered at the customers’ premises which is taken to be the point in time when the Group transfers control over the products to the customer.

Incremental cost of obtaining a contract is capitalised if the Group expects to recover those costs, unless the amortisation period for such costs would be one year or less. Costs that will be incurred regardless of whether the contract is obtained are expensed as they are incurred.

The Group presents a contract liability or a contract asset in its consolidated statements of financial position when either party to the contract has performed. The Group performs by transferring goods or services to the customer, and the customer performs by paying consideration to the Group.

Any unconditional rights to consideration are presented separately as “Trade receivables”.

Contract liabilities are obligations to transfer goods or services to customer for which the Group has received consideration, or for which an amount of consideration is due from the customer.

Contract assets are rights to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditional on something other than the passage of time.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (q)(a).
 - (vii) A person identified in (q)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) *Impairment of trade receivables*

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and estimates allowances for doubtful debts as a result of the inability of the debtors to make required payments. The Group bases the estimate on the ageing of the trade receivables balance, credit-worthiness of the customer and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) *Revenue*

As explained in Notes 2(g) and 2(o), revenue and profit recognition on a project is dependent on management's estimation of the progress of the satisfaction of performance obligations of a construction contract over time, measured by actual contract costs incurred to date to estimated total contract costs for the contract. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group reviews and revises the estimates of contract revenue, contract costs and variation order, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major subcontractors, suppliers and vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs and revises the budgeted construction costs as appropriate.

Significant judgement is required in estimating the contract revenue, contract costs and variation work which may have an impact on percentage of completion of the construction contracts and the corresponding profit taken. In addition, actual outcome in terms of total revenue or costs may be higher or lower than estimation at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustments to the amounts recorded to date.

4 REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received or receivable from the service contracts by the Group to external customers. The Group's operation is solely derived from HVAC Business in Hong Kong during the Relevant Periods. For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews the overall results and financial position of the Group as a whole prepared based on same accounting policy set out in Note 2(o). Accordingly, the Group has only one single operating segment and no further discrete financial information nor analysis of this single segment is presented.

Disaggregation of revenue

Revenue is disaggregated as follows:

By timing of revenue recognition:

	Year ended 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Products transferred at a point in time	13,229	6,626	14,809
Services transferred over time	<u>114,801</u>	<u>103,841</u>	<u>111,037</u>
	<u>128,030</u>	<u>110,467</u>	<u>125,846</u>

By type of services:

	Year ended 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Installation services only	97,457	89,790	87,216
Installation services with HVAC systems procurement	<u>30,573</u>	<u>20,677</u>	<u>38,630</u>
	<u>128,030</u>	<u>110,467</u>	<u>125,846</u>

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as at 31 December 2017.

\$'000

Remaining performance obligations expected to be satisfied during the year ending:

31 December 2018	151,342
31 December 2019	33,354
After 31 December 2019	<u>4,394</u>
	<u><u>189,090</u></u>

The Group applies the practical expedient in paragraph C5(d) of HKFRS 15 and does not disclose information about remaining performance obligations as at 31 December 2015 and 2016 expected to be satisfied in the future.

Geographical information

The Group's operations are solely located in Hong Kong.

Information about major customers

The Group's customer base includes three, three and five customers with whom transactions have exceeded 10% of the Group's revenue. Revenue from customers during the Relevant Periods contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Customer A	23,230	42,626	50,877
Customer B	58,357	45,084	20,942
Customer C	46,443	21,975	25,063
Customer D	N/A*	N/A*	15,234
Customer E	<u>N/A*</u>	<u>N/A*</u>	<u>13,730</u>

* Less than 10 percent of the Group's revenue for the corresponding reporting period.

Details of concentration of credit risk arising from these customers are set out in Note 22(a).

5 OTHER INCOME

	Year ended 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Bank interest income	1	2	5
Repair service income	1,034	1,142	806
Gain on disposal of plant and equipment	470	346	—
Sundry income	<u>25</u>	<u>5</u>	<u>15</u>
	<u>1,530</u>	<u>1,495</u>	<u>826</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
(a) Finance costs			
Interest on bank loans	164	169	86
Interest on bank overdrafts	335	273	179
Finance charges on obligations under finance leases	<u>49</u>	<u>95</u>	<u>57</u>
	<u>548</u>	<u>537</u>	<u>322</u>
(b) Staff costs (including directors' emoluments)			
Salaries, wages and other benefits	23,889	27,407	27,061
Contributions to defined contribution retirement plan	<u>906</u>	<u>713</u>	<u>1,175</u>
	<u>24,795</u>	<u>28,120</u>	<u>28,236</u>
(c) Other items			
Depreciation	1,088	1,173	795
Operating lease charges: minimum lease payments	318	1,005	420
Auditors' remuneration	70	143	180
Loss on disposal of plant and equipment	<u>—</u>	<u>—</u>	<u>125</u>
	<u>1,476</u>	<u>2,321</u>	<u>1,520</u>

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

- (a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Current tax — Hong Kong Profits Tax			
Provision for the year	4,369	3,985	4,755
Over-provision in respect of prior years	<u>—</u>	<u>—</u>	<u>(79)</u>
	4,369	3,985	4,676
Deferred tax			
Origination and reversal of temporary differences	<u>(200)</u>	<u>(407)</u>	<u>654</u>
	<u><u>4,169</u></u>	<u><u>3,578</u></u>	<u><u>5,330</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the Relevant Periods.

- (b) Reconciliation between tax expense and according profit at applicable tax rates:

	Year ended 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Profit before taxation	<u>24,885</u>	<u>21,281</u>	<u>28,734</u>
National tax on profit before taxation calculated at 16.5%	4,106	3,511	4,741
Tax effect of non-deductible expenses	4	132	648
Over-provision in prior years	—	—	(79)
Statutory tax concession	(40)	(40)	(40)
Others	<u>99</u>	<u>(25)</u>	<u>60</u>
Actual tax expense	<u><u>4,169</u></u>	<u><u>3,578</u></u>	<u><u>5,330</u></u>

8 DIRECTORS' EMOLUMENTS

Directors' emoluments during the Relevant Periods are as follows:

	Year ended 31 December 2015		
	Executive Directors		
	Mr. Tony Cheung \$'000	Mr. Gary Cheung \$'000	Total \$'000
Directors' fees	—	—	—
Salaries, allowance and benefits in kind	831	480	1,311
Discretionary bonus	—	—	—
Retirement benefit scheme contributions	18	3	21
Total	<u>849</u>	<u>483</u>	<u>1,332</u>

	Year ended 31 December 2016		
	Executive Directors		
	Mr. Tony Cheung \$'000	Mr. Gary Cheung \$'000	Total \$'000
Directors' fees	—	—	—
Salaries, allowance and benefits in kind	2,236	1,847	4,083
Discretionary bonus	—	—	—
Retirement benefit scheme contributions	18	18	36
Total	<u>2,254</u>	<u>1,865</u>	<u>4,119</u>

	Year ended 31 December 2017			
	Executive Directors			
	Mr. Tony Cheung \$'000	Mr. Gary Cheung \$'000	Mr. Tang Chi Chiu \$'000	Total \$'000
Directors' fees	—	—	—	—
Salaries, allowance and benefits in kind	2,524	1,910	600	5,034
Discretionary bonus	—	—	—	—
Retirement benefit scheme contributions	18	18	18	54
Total	<u>2,542</u>	<u>1,928</u>	<u>618</u>	<u>5,088</u>

Directors of the Company received remuneration from the subsidiaries now comprising the Group during the Relevant Periods which was included in staff costs as disclosed in Note 6(b).

Notes:

- (i) No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods. No director waived or agreed to waive any emoluments during the Relevant Periods.
- (ii) During the Relevant Periods, remuneration of Mr. Tony Cheung was paid by Man Tung Air-Conditioning Works Limited.
- (iii) During the Relevant Periods, remuneration of Mr. Gary Cheung was paid by Shun Tung Engineering Company Limited.
- (iv) Mr. Tang Chi Chiu was employed by the Company on 3 January 2017 and was appointed as executive director on 27 February 2018.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two, two and three are directors for the years ended 31 December 2015, 2016 and 2017 respectively whose emoluments are disclosed in Note 8. The emoluments in respect of the other three, three and two individuals for the years ended 31 December 2015, 2016 and 2017 respectively are as follows:

	Year ended 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Salaries and other benefits	1,538	1,627	1,056
Retirement benefit scheme contributions	<u>49</u>	<u>52</u>	<u>36</u>
	<u><u>1,587</u></u>	<u><u>1,679</u></u>	<u><u>1,092</u></u>

Their emoluments of the three, three and two individuals with the highest emoluments for the years ended 31 December 2015, 2016 and 2017 respectively are within the following bands:

	Year ended 31 December		
	2015	2016	2017
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to \$1,000,000	<u><u>3</u></u>	<u><u>3</u></u>	<u><u>2</u></u>

10 EARNINGS PER SHARE

The calculation of the basic earnings per share during the Relevant Periods is based on the profit for the year attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue and on the assumption that the Reorganisation had been in effective on 1 January 2015. The weighted average number of ordinary shares in issue has not taken into account the capitalisation issue which will be completed upon listing.

The calculation of basic earnings per share is based on:

	Year ended 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Earnings			
Profit attributable to the equity shareholders of the Company	<u>20,716</u>	<u>17,703</u>	<u>23,404</u>
	Number of shares		
	Year ended 31 December		
	2015	2016	2017
Shares			
Weighted average number of ordinary shares in issue	<u>200</u>	<u>200</u>	<u>200</u>

During the years ended 31 December 2015, 2016 and 2017 there were no dilutive potential ordinary shares in issue. The amount of dilutive earnings per share is the same as basic earnings per share for the Relevant Periods.

11 PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Furniture and fixtures \$'000	Computer and office equipment \$'000	Motor vehicles \$'000	Total \$'000
Costs:					
At 1 January 2015	252	79	212	5,118	5,661
Additions	67	6	27	2,517	2,617
Disposals	—	—	—	(1,120)	(1,120)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2015	319	85	239	6,515	7,158
At 1 January 2016	319	85	239	6,515	7,158
Additions	884	120	149	1,240	2,393
Disposals	—	—	(142)	(1,417)	(1,559)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016	1,203	205	246	6,338	7,992
At 1 January 2017	1,203	205	246	6,338	7,992
Additions	—	—	84	33	117
Disposals	(455)	(84)	(87)	(3,271)	(3,897)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017	748	121	243	3,100	4,212

	Leasehold improvements \$'000	Furniture and fixtures \$'000	Computer and office equipment \$'000	Motor vehicles \$'000	Total \$'000
Accumulated depreciation:					
At 1 January 2015	252	77	195	4,282	4,806
Charge for the year	13	2	13	1,060	1,088
Written back on disposals	—	—	—	(840)	(840)
At 31 December 2015	<u>265</u>	<u>79</u>	<u>208</u>	<u>4,502</u>	<u>5,054</u>
At 1 January 2016	265	79	208	4,502	5,054
Charge for the year	204	27	45	897	1,173
Written back on disposals	—	—	(142)	(1,407)	(1,549)
At 31 December 2016	<u>469</u>	<u>106</u>	<u>111</u>	<u>3,992</u>	<u>4,678</u>
At 1 January 2017	469	106	111	3,992	4,678
Charge for the year	150	24	34	587	795
Written back on disposals	(360)	(80)	(54)	(2,359)	(2,853)
At 31 December 2017	<u>259</u>	<u>50</u>	<u>91</u>	<u>2,220</u>	<u>2,620</u>
Net book value:					
At 31 December 2015	<u>54</u>	<u>6</u>	<u>31</u>	<u>2,013</u>	<u>2,104</u>
At 31 December 2016	<u>734</u>	<u>99</u>	<u>135</u>	<u>2,346</u>	<u>3,314</u>
At 31 December 2017	<u>489</u>	<u>71</u>	<u>152</u>	<u>880</u>	<u>1,592</u>

Assets held under finance leases

Included in the motor vehicles, there are vehicles with net book value amounted to \$1,888,000, \$1,941,000 and \$710,000 as at 31 December 2015, 2016 and 2017 respectively classified as being held under finance leases. The Group leases motor vehicles under finance leases expiring from 2 to 5 years. At the end of the lease term the Group has the option to purchase the leased vehicles at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

Additions to motor vehicles financed by new finance leases were \$2,517,000, \$693,000 and nil during the years ended 31 December 2015, 2016 and 2017 respectively.

12 TRADE AND OTHER RECEIVABLES

	At 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Trade receivables	10,648	2,805	27,359
Deposits, prepayments and other receivables	1,287	1,070	1,402
Retention receivables	5,940	7,439	12,064
	<u>17,875</u>	<u>11,314</u>	<u>40,825</u>

At 31 December 2015, 2016 and 2017, the amounts expected to be recovered after more than one year are \$2,839,000, \$5,169,000 and \$4,343,000 respectively. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

At 31 December 2015, 2016 and 2017, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the date of payment certificate and net of allowance for doubtful debts, is as follows:

	At 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Within 1 month	8,469	2,417	26,314
1 to 2 months	—	28	1,029
2 to 3 months	—	25	—
Over 3 months	2,179	335	16
	<u>10,648</u>	<u>2,805</u>	<u>27,359</u>

Trade receivables are due within 30 to 45 days from the date of payment certificate. Further details on the Group's credit policy are set out in Note 22(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see Note 2(f)(i)).

No allowance for doubtful debts were recognised during the years ended 31 December 2015, 2016 and 2017. At 31 December 2015, 2016 and 2017, no trade receivables were individually determined to be impaired.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Neither past due nor impaired	8,469	2,442	27,343
Less than 1 month past due	—	28	—
1 to 3 months past due	—	—	—
Over 3 months past due	2,179	335	16
	<u>2,179</u>	<u>363</u>	<u>16</u>
	<u>10,648</u>	<u>2,805</u>	<u>27,359</u>

Receivables that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

13 CONTRACT ASSETS AND CONTRACT LIABILITIES

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Contract assets	14,892	15,677	29,194
Contract liabilities	<u>(7,347)</u>	<u>(7,063)</u>	<u>(1,707)</u>
	<u>7,545</u>	<u>8,614</u>	<u>27,487</u>

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Contract costs incurred plus recognised profits less recognised losses	303,640	401,222	507,578
Less: Progress billings to date	<u>(296,095)</u>	<u>(392,608)</u>	<u>(480,091)</u>
	<u>7,545</u>	<u>8,614</u>	<u>27,487</u>

At 31 December 2017, out of \$507,578,000 of contract costs incurred plus recognised profits less recognised losses, \$81,434,000 were related to projects on hand and \$426,144,000 were related to projects that had been completed but were still in the defects liability period.

The amount of revenue recognised and reversed during the years ended 31 December 2015, 2016 and 2017 from performance obligations satisfied in previous periods, mainly due to the changes in estimate of stage of completion, are as follows:

	Year ended 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Revenue recognised due to changes in estimate of stage of completion	3,381	1,681	11,738
Revenue reversed due to changes in estimate of stage of completion	<u>(2,211)</u>	<u>(592)</u>	<u>(8,034)</u>
	<u>1,170</u>	<u>1,089</u>	<u>3,704</u>

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

Movement in the contract assets and the contract liabilities balances during the Relevant Periods are as follows:

	Year ended 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	888	4,834	7,063
Transfers from the contract assets recognised at the beginning of the year to trade receivables	<u>(22,151)</u>	<u>(14,125)</u>	<u>(15,150)</u>

14 AMOUNTS DUE FROM DIRECTORS

The amounts due from directors are as follows:

<i>Name of the director</i>	<i>Mr. Tony Cheung</i>	<i>Mr. Gary Cheung</i>
Terms of the balance		
— duration and repayment terms	Repayable on demand	Repayable on demand
— interest rate	Interest-free	Interest-free
— security	None	None
Balance of the outstanding		
— at 1 January 2015	\$3,438,000	—
— at 31 December 2015 and 1 January 2016	\$13,518,000	\$5,429,000
— at 31 December 2016 and 1 January 2017	\$8,506,000	\$5,060,000
— at 31 December 2017	\$8,804,000	\$5,869,000
Maximum balance outstanding		
— during 2015	\$13,518,000	\$5,429,000
— during 2016	\$15,578,000	\$15,059,000
— during 2017	\$15,600,000	\$5,869,000

There was no amount due but unpaid, nor any provision made against the amounts as at 31 December 2015, 2016 and 2017. The above amounts are non-trade in nature will be recovered before the Listing of the Company.

15 CASH AT BANK AND IN HAND AND PLEDGED BANK DEPOSITS

(a) Cash at bank and in hand comprise:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cash in hand	2	12	12
Deposits with banks with maturity less than three months	4,188	15,640	1,826
	<u>4,190</u>	<u>15,652</u>	<u>1,838</u>
Cash at bank and in hand	4,190	15,652	1,838
Secured bank overdrafts (<i>Note 17</i>)	(8,322)	(5,730)	(12,652)
	<u>(8,322)</u>	<u>(5,730)</u>	<u>(12,652)</u>
Cash and cash equivalents in the consolidated cash flow statements	<u>(4,132)</u>	<u>9,922</u>	<u>(10,814)</u>

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	<i>Note</i>	Year ended 31 December		
		2015	2016	2017
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Profit before taxation		24,885	21,281	28,734
Depreciation	<i>6(c)</i>	1,088	1,173	795
Finance costs	<i>6(a)</i>	548	537	322
Bank interest income	5	(1)	(2)	(5)
(Gain)/loss on disposal of plant and equipment	<i>5/6(c)</i>	(470)	(346)	125
		<u>26,050</u>	<u>22,643</u>	<u>29,971</u>
Operating cash flows before movements in working capital		26,050	22,643	29,971
Changes in working capital				
(Increase)/decrease in trade and other receivables		(1,642)	6,561	(28,319)
Net movement in contract assets and contract liabilities		11,456	(1,069)	(18,873)
(Decrease)/increase in trade and other payables		(6,692)	1,767	1,112
		<u>(6,692)</u>	<u>1,767</u>	<u>1,112</u>
Cash generated from/(used in) operations		<u>29,172</u>	<u>29,902</u>	<u>(16,109)</u>

Significant non-cash transactions

During the year ended 31 December 2015, 200 ordinary shares were issued by City Flourish Limited and Treasure Express Limited for US\$200 (equivalent to approximately \$1,560). The consideration was nil paid and settled through the current accounts with the Controlling Shareholders.

During the year ended 31 December 2016, amounts due from related companies and amount due to a related company of \$10,498,000 and \$30,000, respectively, were set off against amounts due from directors.

During the year ended 31 December 2016, dividend of \$17,000,000 declared by the Group's subsidiaries as disclosed in Note 21(b) was set off against amounts due from directors.

(c) Reconciliation of liabilities arising from financing activities

	Obligations under finance		
	Bank loans	leases	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
	<i>(Note 17)</i>	<i>(Note 18)</i>	
At 1 January 2015	4,909	346	5,255
Changes from financing cash flows:			
Proceeds from new bank loans	1,202	—	1,202
Repayment of bank loans	(1,419)	—	(1,419)
Interest on bank loans paid	(164)	—	(164)
Capital element of finance lease rentals paid	—	(951)	(951)
Interest element of finance lease rentals paid	—	(49)	(49)
Total changes from financing cash flows	----- (381)	----- (1,000)	----- (1,381)
Other changes:			
New finance leases <i>(Note 11)</i>	—	2,517	2,517
Finance charges on obligations under finance leases <i>(Note 6(a))</i>	—	49	49
Interest on bank loans <i>(Note 6(a))</i>	164	—	164
Total other changes	===== 164	===== 2,566	===== 2,730
At 31 December 2015	<u><u>4,692</u></u>	<u><u>1,912</u></u>	<u><u>6,604</u></u>

	Obligations under finance		
	Bank loans	leases	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
	<i>(Note 17)</i>	<i>(Note 18)</i>	
At 1 January 2016	4,692	1,912	6,604
Changes from financing cash flows:			
Proceeds from new bank loans	1,400	—	1,400
Repayment of bank loans	(2,213)	—	(2,213)
Interest on bank loans paid	(169)	—	(169)
Capital element of finance lease rentals paid	—	(812)	(812)
Interest element of finance lease rentals paid	—	(95)	(95)
	<u> </u>	<u> </u>	<u> </u>
Total changes from financing cash flows	----- (982)	----- (907)	----- (1,889)
Other changes:			
New finance leases <i>(Note 11)</i>	—	693	693
Finance charges on obligations under finance leases <i>(Note 6(a))</i>	—	95	95
Interest on bank loans <i>(Note 6(a))</i>	169	—	169
	<u> </u>	<u> </u>	<u> </u>
Total other changes	----- 169	----- 788	----- 957
At 31 December 2016	<u> </u> <u> </u> 3,879	<u> </u> <u> </u> 1,793	<u> </u> <u> </u> 5,672

	Obligations under finance		
	Bank loans	leases	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
	<i>(Note 17)</i>	<i>(Note 18)</i>	
At 1 January 2017	3,879	1,793	5,672
Changes from financing cash flows:			
Proceeds from new bank loans	11,696	—	11,696
Repayment of bank loans	(2,646)	—	(2,646)
Interest on bank loans and overdrafts paid	(86)	—	(86)
Capital element of finance lease rentals paid	—	(1,168)	(1,168)
Interest element of finance lease rentals paid	—	(57)	(57)
	<u>8,964</u>	<u>(1,225)</u>	<u>7,739</u>
Total changes from financing cash flows	8,964	(1,225)	7,739
Other changes:			
Finance charges on obligations under finance leases <i>(Note 6(a))</i>	—	57	57
Interest on bank loans and overdrafts <i>(Note 6(a))</i>	86	—	86
	<u>86</u>	<u>57</u>	<u>143</u>
Total other changes	86	57	143
At 31 December 2017	12,929	625	13,554

(d) Pledged bank deposits

The balance represents deposits pledged to secure the issuance of performance bonds.

16 TRADE AND OTHER PAYABLES

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Trade payables	4,912	3,016	6,017
Accrued subcontracting costs	99	2,401	541
Other payables and accruals	3,180	4,541	4,512
	<u>8,191</u>	<u>9,958</u>	<u>11,070</u>

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables based on the invoice date is as follows:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Within 1 month	3,760	1,664	3,280
1 to 2 months	1,136	1,301	2,398
2 to 3 months	<u>16</u>	<u>51</u>	<u>339</u>
	<u><u>4,912</u></u>	<u><u>3,016</u></u>	<u><u>6,017</u></u>

17 BANK LOANS AND OVERDRAFTS

At 31 December 2015, 2016 and 2017, the bank loans and overdrafts were repayable as follows:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Within one year or on demand	<u>13,014</u>	<u>9,609</u>	<u>25,581</u>

At 31 December 2015, 2016 and 2017, the bank loans and overdrafts were secured as follows:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Secured bank overdrafts (<i>Note 15</i>)	8,322	5,730	12,652
Secured bank loans	4,692	2,479	12,929
Unsecured bank loans	<u>—</u>	<u>1,400</u>	<u>—</u>
	<u><u>13,014</u></u>	<u><u>9,609</u></u>	<u><u>25,581</u></u>

At 31 December 2015, 2016 and 2017, the banking facilities (including bank loans and overdrafts and performance bonds) granted to the Group were secured by:

- (i) Personal guarantee provided by a director of the Company as at 31 December 2015, 2016 and 2017;
- (ii) Personal properties owned by a director of the Company as at 31 December 2015, 2016 and 2017;
- (iii) Investment properties held by Most Harvest Development Limited, Rich Home Properties Limited and World Million Development Limited as at 31 December 2015, 2016 and 2017. All of them are related companies of the Company; and

- (iv) Pledged bank deposits of the Group of \$1,250,000 and \$1,252,000 as at 31 December 2015 and 2016 respectively.

The directors of the Company confirm that all of the outstanding personal guarantees and properties as set out in items (i) to (iii) above will be replaced by guarantees of the Company upon listing of shares of the Company in the Main Board of the Stock Exchange of Hong Kong Limited.

Notwithstanding the specified repayment schedules as stated in the facilities letters ("specific repayment terms") which allow the loans to be repaid over a period of more than one year, these banking facilities granted to the Group include a clause that gives the banks the unconditional rights to call the bank loans at any time ("repayment on demand clause"). The bank loans subject to the repayment on demand clause amounted to \$4,692,000, \$3,879,000 and \$12,929,000 as at 31 December 2015, 2016 and 2017 respectively were classified as current liabilities in the consolidated statements of financial position.

However, management expects that the bank loans are to be repaid as follows based on the specific repayment terms:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Bank loans due for repayment within one year or on demand:			
Bank loans due for repayment within one year or on demand	2,213	2,647	12,662
	-----	-----	-----
Bank loans due for repayment after one year (Note):			
More than one year, but not exceeding two years	1,247	965	267
More than two years, but not exceeding five years	1,232	267	—
	-----	-----	-----
	2,479	1,232	267
	-----	-----	-----
	4,692	3,879	12,929
	=====	=====	=====

Note: The presentation of amounts due for repayment are based on the specific repayment terms set out in the facilities letters and the effect of any repayment on demand clause is ignored.

18 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2015, 2016 and 2017, the Group had obligations under finance leases repayable as follows:

	2015		At 31 December 2016		2017	
	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000
Within 1 year	613	687	757	823	327	349
After 1 year but within 2 years	617	662	738	767	223	230
After 2 years but within 5 years	682	701	298	309	75	76
	<u>1,299</u>	<u>1,363</u>	<u>1,036</u>	<u>1,076</u>	<u>298</u>	<u>306</u>
	<u>1,912</u>	2,050	<u>1,793</u>	1,899	<u>625</u>	655
Less: Total future interest expenses		<u>(138)</u>		<u>(106)</u>		<u>(30)</u>
Present value of lease obligations		<u>1,912</u>		<u>1,793</u>		<u>625</u>

19 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	At 31 December		
	2015	2016	2017
	\$'000	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	4,369	3,985	4,755
Provisional Profits Tax paid	<u>(1,160)</u>	<u>(1,140)</u>	<u>(4,031)</u>
	3,209	2,845	724
Balance of Profits Tax provision relating to prior years	<u>3,365</u>	<u>5,150</u>	<u>—</u>
	<u><u>6,574</u></u>	<u><u>7,995</u></u>	<u><u>724</u></u>

(b) Deferred tax assets/liabilities recognised

(i) Movement of deferred tax assets/liabilities

The component of deferred tax (assets)/liabilities recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Temporary difference arising from revenue recognition HK\$000	Depreciation allowances in excess of related depreciation HK\$000	Unrealised profit arising from intra-group transactions HK\$000	Total HK\$000
At 1 January 2015	(60)	43	208	191
Charged/(credited) to profit or loss	<u>(271)</u>	<u>22</u>	<u>49</u>	<u>(200)</u>
At 31 December 2015	<u><u>(331)</u></u>	<u><u>65</u></u>	<u><u>257</u></u>	<u><u>(9)</u></u>
At 1 January 2016	(331)	65	257	(9)
Charged/(credited) to profit or loss	<u>134</u>	<u>120</u>	<u>(661)</u>	<u>(407)</u>
At 31 December 2016	<u><u>(197)</u></u>	<u><u>185</u></u>	<u><u>(404)</u></u>	<u><u>(416)</u></u>
At 1 January 2017	(197)	185	(404)	(416)
Charged to profit or loss	<u>197</u>	<u>53</u>	<u>404</u>	<u>654</u>
At 31 December 2017	<u><u>—</u></u>	<u><u>238</u></u>	<u><u>—</u></u>	<u><u>238</u></u>

(ii) Reconciliation to the consolidated statements of financial position

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Net deferred tax assets recognised in the consolidated statements of financial position	(331)	(551)	—
Net deferred tax liabilities recognised in the consolidated statements of financial position	<u>322</u>	<u>135</u>	<u>238</u>
	<u><u>(9)</u></u>	<u><u>(416)</u></u>	<u><u>238</u></u>

There were no material unrecognised deferred tax assets and liabilities as at 31 December 2015, 2016 and 2017.

20 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$30,000. Contributions to the plan vest immediately.

21 CAPITAL AND RESERVES**(a) Movement in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity.

Details of the changes of the Company's individual components of deficits are set out below:

	Share capital \$'000 (Note 21(c))	Accumulated loss \$'000	Share premium \$'000 (Note 21(g))	Total \$'000
At 11 April 2017 (date of incorporation)	—*	—	—	—*
Loss for the period	—	(88)	—	(88)
	—*	(88)	—	(88)
Issuance of shares (Note 21(c))	—*	—	—	—*
Arising from reorganisation (Note 21(c))	—	—	2	2
At 31 December 2017	—*	(88)	2	(86)

* The balances represent amount less than \$1,000.

(b) Dividends

During the years ended 31 December 2015 and 2016, the Group's subsidiaries namely Man Tung Air-conditioning Works Limited and Shun Tung Engineering Company Limited, declared dividends of \$9,458,000 and \$25,627,000 respectively to the then shareholders. No dividend was declared by the Group's subsidiaries during the year ended 31 December 2017. No dividend was declared or paid by the Company during the Relevant Periods to its equity shareholders.

(c) Share capital

The Company was incorporated on 11 April 2017 with an authorised share capital of \$380,000 divided into 38,000,000 ordinary shares of \$0.01 each. On the same date, one ordinary share was allotted and issued by the Company to the initial subscriber as nil paid.

The share capital in the consolidated statements of financial position as at 1 January 2015 represented an aggregate amount of the paid-in capital of Man Tung Air-conditioning E&M Limited, Man Tung Air-conditioning Works Limited and Shun Tung Engineering Company Limited.

On 20 March 2015, 999,999 ordinary shares of Man Tung Air-conditioning E&M Limited were issued and allotted to the then shareholder at \$1 each.

City Flourish Limited was incorporated in Republic of Seychelles on 3 November 2015 with an authorised share capital of US\$1,000,000 divided into 1,000,000 ordinary shares of US\$1 each and issued 100 ordinary shares at par value.

Treasure Express Limited was incorporated in Republic of Seychelles on 9 December 2015 with an authorised share capital of US\$1,000,000 divided into 1,000,000 ordinary shares of US\$1 each and issued 100 ordinary shares at par value.

On 11 December 2015, City Flourish Limited acquired 10,000 shares, representing 100% equity interest of Shun Tung Engineering Company Limited at the consideration of \$10,000. On 29 December 2015, Treasure Express Limited acquired 1,000,000 shares and 1,000,000 shares, representing 100% equity interest of Man Tung Air-conditioning Works Limited and Man Tung Air-conditioning E&M Limited respectively at the consideration of \$1,000,000 and \$1,000,000 respectively. Since then, the share capital in the consolidated statements of financial position as at 31 December 2015 and 2016 represented the paid-in capital of City Flourish Limited and Treasure Express Limited.

Upon the completion of Reorganisation on 16 June 2017, the Company became the holding company of the Group. On the same date, 199 shares of \$0.01 each were allotted and issued at par value. Share capital as at 31 December 2017 represented solely the share capital of the Company.

(d) Merger reserve

The merger reserve represents the aggregate amount of the excess of the nominal value of shares of the companies now comprising the Group over the nominal value of shares of the Company exchanged as part of the Reorganisation.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its construction business and provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

(f) Distributable reserves

The Company was incorporated on 11 April 2017. The Company's reserve available for distribution represents retained profits. Accordingly, there were no reserves available for distribution to equity shareholders of the Company as at 31 December 2017.

(g) Share premium

The share premium account is governed by the Companies Law of the Cayman Islands and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividends is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions and counterparties will fail to meet their obligations.

In respect of trade and other receivables, individual credit evaluations are performed as part of the acceptance procedures for new construction contracts. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 45 days from the date of payment certificate. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, the Group has significant concentration of credit risk in a few customers. In view of their credit rating, good payment record and long established relationships with the Group, management does not consider the Group's credit risk to be significant. At 31 December 2015, 2016 and 2017, 87.0%, 87.2% and 33.6% of the trade receivables was due from the Group's largest customer respectively and all of the trade receivables were due from the Group's five largest customers.

Except for the financial guarantee given by the Group as set out in Note 25(b), the Group does not provide any other guarantee which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the financial guarantee at the end of each reporting period is disclosed in Note 25(b). The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 12.

(b) Liquidity risk

Individual operating subsidiaries within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities as at 31 December 2015, 2016 and 2017 of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December 2015, 2016 and 2017) and the earliest date the Group can be required to pay.

For bank loans subject to repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on expected repayment dates with reference to the schedule of repayments set out in the banking facilities letters and, separately, the impact to the timing of the cash outflow if the lenders were to invoke unconditional rights to call the loans with immediate effect.

	At 31 December 2015				
	Carrying amount at 31 December \$'000	Contractual undiscounted cash outflow			
		Total contractual undiscounted cash flow \$'000	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000
Trade and other payables	8,191	8,191	8,191	—	—
Amount due to a related company	30	30	30	—	—
Bank loans and overdrafts	13,014	13,206	10,647	1,304	1,255
Finance lease liabilities	1,912	2,050	687	662	701
	<u>23,147</u>	<u>23,477</u>	<u>19,555</u>	<u>1,966</u>	<u>1,956</u>
Adjustments to present cash flows on bank loans based on lender's right to demand repayment		<u>(192)</u>	<u>2,367</u>	<u>(1,304)</u>	<u>(1,255)</u>
		<u>23,285</u>	<u>21,922</u>	<u>662</u>	<u>701</u>
Financial guarantee issued: Maximum amount guaranteed (Note 25(b))	<u>—</u>	<u>4,238</u>	<u>4,238</u>	<u>—</u>	<u>—</u>

	At 31 December 2016				
	Carrying amount at 31 December \$'000	Contractual undiscounted cash outflow			
		Total contractual undiscounted cash flow \$'000	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000
Trade and other payables	9,958	9,958	9,958	—	—
Bank loans and overdrafts	9,609	9,689	8,434	985	270
Finance lease liabilities	1,793	1,899	823	767	309
	<u>21,360</u>	<u>21,546</u>	<u>19,215</u>	<u>1,752</u>	<u>579</u>
Adjustments to present cash flows on bank loans based on lender's right to demand repayment		(80)	1,175	(985)	(270)
		<u>21,466</u>	<u>20,390</u>	<u>767</u>	<u>309</u>
Financial guarantee issued: Maximum amount guaranteed (Note 25(b))	<u>—</u>	<u>3,857</u>	<u>3,857</u>	<u>—</u>	<u>—</u>
	At 31 December 2017				
	Carrying amount at 31 December \$'000	Contractual undiscounted cash outflow			
		Total contractual undiscounted cash flow \$'000	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000
Trade and other payables	11,070	11,070	11,070	—	—
Bank loans and overdrafts	25,581	25,843	25,573	270	—
Finance lease liabilities	625	655	349	230	76
	<u>37,276</u>	<u>37,568</u>	<u>36,992</u>	<u>500</u>	<u>76</u>
Adjustments to present cash flows on bank loans based on lender's right to demand repayment		(262)	8	(270)	—
		<u>37,306</u>	<u>37,000</u>	<u>230</u>	<u>76</u>
Financial guarantee issued: Maximum amount guaranteed (Note 25(b))	<u>—</u>	<u>3,467</u>	<u>3,467</u>	<u>—</u>	<u>—</u>

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings.

	At 31 December					
	2015		2016		2017	
	Effective interest rate %	\$'000	Effective interest rate %	\$'000	Effective interest rate %	\$'000
Fixed rate borrowings:						
Finance lease liabilities	4.22%–8.00%	<u>1,912</u>	4.31%–6.61%	<u>1,793</u>	4.37%–6.61%	<u>625</u>
Variable rate borrowings:						
Bank overdrafts	4.25%–4.50%	8,322	4.25%–4.50%	5,730	4.25%–5.26%	12,652
Bank loans	3.00%	<u>4,692</u>	3.00%–4.00%	<u>3,879</u>	3.00%–3.75%	<u>12,929</u>
		<u>13,014</u>		<u>9,609</u>		<u>25,581</u>
Total borrowings		<u>14,926</u>		<u>11,402</u>		<u>26,206</u>
Fixed rate borrowings as a percentage of total borrowings		<u>13%</u>		<u>16%</u>		<u>2%</u>

(ii) Sensitivity analysis

At 31 December 2015, 2016 and 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax by approximately \$109,000, \$80,200 and \$213,600, respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in interest rates had occurred at the end of the reporting period in respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period. The impact on the Group's profit after tax is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis is performed on the same basis during the Relevant Periods.

(d) Foreign currency risk

The Group has no significant exposure to foreign currency risk as all of the Group's transactions are denominated in Hong Kong dollar.

(e) Fair value measurement

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015, 2016 and 2017.

23 COMMITMENTS

At 31 December 2015, 2016 and 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Within 1 year	378	498	210
After 1 year but within 5 years	<u>78</u>	<u>210</u>	<u>—</u>
	<u><u>456</u></u>	<u><u>708</u></u>	<u><u>210</u></u>

The Group is the lessee in respect of a number of properties. The leases typically run for an initial period of 2 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

24 MATERIAL RELATED PARTY TRANSACTIONS

During the Relevant Periods, the directors are of the view that the following are related parties of the Group:

Name of party	Relationships
Mr. Tony Cheung	Shareholder and director
Mr. Gary Cheung	Shareholder and director
Ms. Chan Ho Fung	Spouse of Mr. Tony Cheung
Ms. Cheng Phyllis Woon Kiak	Spouse of Mr. Gary Cheung
World Million Development Limited	100% owned by Mr. Gary Cheung
Most Harvest Development Limited	100% owned by Mr. Gary Cheung
Rich Home Properties Limited	100% owned by Mr. Gary Cheung
Concord Harmony Development Limited	100% owned by Mr. Tony Cheung
Well Crown Investment Limited	50% owned by Mr. Gary Cheung, 50% owned by Ms. Cheng Phyllis Woon Kiak
Loyal Merit Investment Limited	100% owned by Mr. Tony Cheung

In addition to transactions and balances disclosed elsewhere in this Historical Financial Information, the Group entered into the following material related transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Salaries and other benefits	2,849	5,710	6,090
Retirement benefit scheme contributions	<u>70</u>	<u>88</u>	<u>90</u>
	<u><u>2,919</u></u>	<u><u>5,798</u></u>	<u><u>6,180</u></u>

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Transactions with related parties

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Rental expenses paid to:			
— Ms. Chan Ho Fung & Mr. Tony Cheung	—	451	—
— World Million Development Limited	180	254	—
— Most Harvest Development Limited	—	216	420
— Rich Home Properties Limited	84	84	—
Sale of plant and equipment to			
Mr. Tony Cheung and Mr. Gary Cheung	<u>750</u>	<u>356</u>	<u>—</u>
	<u><u>1,014</u></u>	<u><u>1,361</u></u>	<u><u>420</u></u>

(c) Financing arrangements

At 31 December 2015, 2016 and 2017, the Group had the following balances with related parties:

	<i>Notes</i>	At 31 December		
		2015	2016	2017
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Amounts due from directors	<i>(i), (iii)</i>			
— Mr. Tony Cheung		13,518	8,506	8,804
— Mr. Gary Cheung		<u>5,429</u>	<u>5,060</u>	<u>5,869</u>
		<u>18,947</u>	<u>13,566</u>	<u>14,673</u>
Amounts due from related companies	<i>(ii)</i>			
— Most Harvest Development Limited		7,377	—	—
— Well Crown Investment Limited		2,928	—	—
— Loyal Merit Investment Limited		<u>193</u>	<u>—</u>	<u>—</u>
		<u>10,498</u>	<u>—</u>	<u>—</u>
Amount due to a related company	<i>(ii)</i>			
— Concord Harmony Development Limited		<u>(30)</u>	<u>—</u>	<u>—</u>

Notes:

- (i) Further details of balances with directors are disclosed in Note 14.
- (ii) The outstanding balances with these related parties are non-trade nature, unsecured, interest-free and have no fixed repayment terms.
- (iii) The amounts will be recovered before the listing of the Company.

25 CONTINGENT LIABILITIES

At 31 December 2015, 2016 and 2017, contingent liabilities not provided for in the Historical Financial Information were as follows:

(a) Performance bonds

	At 31 December		
	2015	2016	2017
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Performance bonds given to a customer for due and proper performance of projects undertaken by the Group's subsidiaries	<u>1,248</u>	<u>1,248</u>	<u>—</u>

(b) Financial guarantee issued

At 31 December 2015, 2016 and 2017, the Group has issued a single guarantee in respect of a banking facilities granted by a bank to Well Crown Investment Limited, a related company. The Group has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was nil. The Group monitors the conditions that are subject to the guarantee to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses can be estimated. At the end of the reporting period, the directors of the Company do not consider it is probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at 31 December 2015, 2016 and 2017 under the guarantee issued is the outstanding amount of the banking facilities utilised by Well Crown Investment Limited of \$4,238,000, \$3,857,000 and \$3,467,000 respectively.

The directors of the Company confirm that the outstanding guarantee as set out above will be released by the bank upon listing of shares of the Company in the Main Board of the Stock Exchange of Hong Kong Limited.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in this Financial Information.

	Effective for accounting periods beginning on or after
<i>Amendments to HKFRSs, Annual improvements 2014–2016 cycle</i>	1 January 2018
<i>Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance contracts (Amendments)</i>	1 January 2018
<i>HKFRS 9, Financial instruments</i>	1 January 2018
<i>Amendments to HKFRS 2, Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
<i>Amendments to HKAS 40, Investment property: Transfers of investment property</i>	1 January 2018
<i>HK(IFRIC) 22, Foreign currency transactions and advance consideration</i>	1 January 2018
<i>HKFRS 16, Leases</i>	1 January 2019
<i>HK(IFRIC) 23, Uncertainty over income tax treatments</i>	1 January 2019
<i>Annual improvements 2015–2017 Cycle, Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23</i>	1 January 2019
<i>HKFRS 17, Insurance contracts</i>	1 January 2021
<i>Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has not identified any aspect of the new standards which may have a impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available

to the Group, and further impacts may be identified before the standards are initially applied. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Based on a preliminary assessment, the Group does not expect the application of the expected credit loss model will result in earlier recognition of credit losses.

HKFRS 16, Leases

As disclosed in Note 2(e), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

As disclosed in Note 23, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amounted to \$210,000 for properties, all of which is payable within 1 year after the reporting date. Therefore the Group does not expect this new requirement will have any significant impact on the Group on adoption of HKFRS 16. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from opening lease commitments on adoption of HKFRS 16, after taking into account the applicability of practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

27 SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2017:

Dividends

Subsequent to 31 December 2017, the Group's subsidiaries namely Man Tung Air-conditioning E&M Limited, Man Tung Air-conditioning Works Limited and Shun Tung Engineering Company Limited declared dividends in aggregation of \$18,000,000 to the shareholders.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries 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 forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company as set forth in Appendix I to this Prospectus, and is concluded here in for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountant's Report set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set forth herein to illustrate the effect of the Share Offer on our consolidated net tangible assets as of 31 December 2017 as if the Share Offer had taken place on 31 December 2017.

The unaudited pro forma account of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our financial position had the Share Offer been completed as at 31 December 2017 or any future date.

	Consolidated net tangible assets attributable to equity shareholders of the Company as at 31 December 2017⁽¹⁾	Estimated net proceeds from the Share Offer⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company⁽³⁾	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company per share⁽⁴⁾
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on an Offer Price of HK\$0.60 per share	48,177	126,407	173,592	0.17
Based on an Offer Price of HK\$0.50 per share	48,177	102,657	149,142	0.15

Notes:

- (1) The consolidated net tangible assets attributable to equity shareholders of the Company as at 31 December 2017 is compiled based on the total equity extracted from the Accountants' Report as set out in Appendix I to this prospectus. The Group has no goodwill or other intangible assets as at 31 December 2017.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.50 per Share or HK\$0.60 per Share, being the low-end and high-end of the stated Offer Price range, respectively, after deduction of the underwriting fees and other listing-related expenses paid and payable by the Company (excluding approximately HK\$3.9 million listing-related expenses which have been charged to our consolidated statements of profit or loss and other comprehensive income during the Track Record Period), and 250,000,000 shares expected to be issued under the Share Offer, assuming that the Over-allotment Option and any options which may be granted under the Share Option Scheme are not exercised and no shares are allotted and issued or repurchased pursuant to the general mandates.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) No adjustment has been made to unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017, including the dividends of HK\$18.0 million declared on 30 April 2018. The unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company per Share would have been decreased to HK\$0.13 per Share and HK\$0.16 per Share based on the low-end and high-end of the stated Offer Price of HK\$0.50 per Share and HK\$0.60 per Share, respectively, if the declaration of dividends had been accounted for.

- (4) The unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares are in issue immediately following the completion of the Share Offer. It does not take into account any Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and any shares which may be allotted and issued or repurchased pursuant to the general mandates.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF MAN SHUN GROUP (HOLDINGS) LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Man Shun Group (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2017 and related notes as set out in Part A of Appendix II to the prospectus dated 28 June 2018 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Share Offer") on the Group's financial position as at 31 December 2017 as if the Share Offer had taken place at 31 December 2017. As part of this process, information about the Group's financial position as at 31 December 2017 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the 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.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the 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 purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgement, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the 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 pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

28 June 2018

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 11 April 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum 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 8 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

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
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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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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

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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.

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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

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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 or that based on legal opinions provided by legal advisers, the board considers it necessary or expedient not to allot, offer, grant options over or otherwise dispose of the shares to such members on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. 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.

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(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.

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(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.

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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.

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(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.

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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 other than the year of the Company's adoption of the Articles 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;

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- (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.

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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

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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.

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(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.

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(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.

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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

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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.

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(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 section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (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 17 May 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from

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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.

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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.

FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES**1. Incorporation of our Company**

Our Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law on 11 April 2017. Our Company has established a principal place of business in Hong Kong at Room 1908, 19/F, Cheung Fung Industrial Building, Nos. 23–39 Pak Tin Par Street, Tsuen Wan, New Territories, Hong Kong and was registered as a registered non-Hong Kong company under Part 16 of the Companies Ordinance on 24 August 2017. In connection with such registration, Mr. Tang Chi Chiu of Room 1908, 19/F, Cheung Fung Industrial Building, Nos. 23–39 Pak Tin Par Street, Tsuen Wan, New Territories, Hong Kong has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the Companies Law and its constitution, which comprises of the Memorandum and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company had an initial authorised share capital of HK\$380,000 divided into 38,000,000 ordinary Shares with par value of HK\$0.01 each. On 11 April 2017, one nil-paid subscriber Share was allotted and issued to the initial subscriber to the memorandum of association of our Company, which was subsequently transferred to Prime Pinnacle on the same date.
- (b) On 16 June 2017, our Company (i) issued and allotted an aggregate of 100 Shares, credited as fully paid at par, to Prime Pinnacle (at the direction of Mr. Tony Cheung (as to 51 Shares) and Mr. Gary Cheung (as to 49 Shares)); and (ii) credited the one nil-paid Share held by Prime Pinnacle as fully paid.
- (c) On 16 June 2017, our Company issued and allotted 99 Shares, credited as fully paid at par, to Prime Pinnacle (at the direction of Mr. Tony Cheung (as to 50 Shares) and Mr. Gary Cheung (as to 49 Shares)).
- (d) Pursuant to the written resolutions of our then sole Shareholder passed on 8 June 2018, the authorised share capital of our Company was increased from HK\$38,000 divided into 38,000,000 ordinary Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 ordinary Shares of par value HK\$0.01 each, by the creation of an additional 4,962,000,000 Shares.
- (e) Immediately following completion of the Capitalisation Issue and the Share Offer, the authorised share capital of our Company will be HK\$50,000,000 divided into 5,000,000,000 Shares and the issued share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares fully paid or credited as fully paid, and 4,000,000,000 Shares will

remain unissued. Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraph headed “Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 8 June 2018” in this appendix and the allotment and issue of Shares pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in its general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

3. Resolutions in writing of the sole Shareholder passed on 8 June 2018

Pursuant to the resolutions in writing passed by the then sole Shareholder on 8 June 2018, among other matters:

- (a) our Company approved and conditionally adopted the Memorandum and the Articles with effect from the Listing Date;
- (b) our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 ordinary Shares of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 ordinary Shares of HK\$0.01 each by the creation of an additional 4,962,000,000 new Shares of HK\$0.01 each, each ranking *pari passu* in all respects with the Shares then in issue;
- (c) conditional on (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); (ii) the Price Determination Agreement having been executed by the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company and becoming effective on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Sole Bookrunner (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case, on or before the date falling 30 days after the date of this prospectus:
 - (i) the Share Offer and the Over-allotment Option were approved and our Directors were authorised to allot and issue the new Shares pursuant to the Share Offer and the exercise of the Over-allotment Option to rank *pari passu* with the Shares then in issue in all respect; and
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Other information — 12. Share Option Scheme” in this appendix below were approved and adopted, and our Directors were authorised to, at their absolute discretion but subject to the terms and conditions of the Share Option Scheme to grant options to subscribe for our Shares thereunder and, to allot, issue and deal with

the Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to do such acts and things as they may consider necessary or desirable to implement the Share Option Scheme;

- (d) conditional on the share premium account of our Company being credited as a result of the Share Offer or otherwise having sufficient balance, the Capitalisation Issue was approved. Our Directors were authorised to capitalise an amount of HK\$7,499,998 standing to the credit of the share premium account of our Company to pay up in full at par 749,999,800 Shares for allotment and issue to Prime Pinnacle, being our sole Shareholder as at 8 June 2018 and the Shares allotted and issued shall rank pari passu in all respects with the then existing issued Shares, and our Directors were authorised to give effect to the Capitalisation Issue;
- (e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or pursuant to the exercise of any options which have been or may be granted under the Share Option Scheme, or under the Share Offer or the Capitalisation Issue, Shares or securities convertible into Shares with a total number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and (bb) the total number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors in paragraph (f) below, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held, or the date of passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors as set out in this paragraph (e), whichever occurs first; and
- (f) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or other Stock Exchange on which Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, such Shares with a total number of not exceeding 10% of the number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held, or the date of passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors as set out in this paragraph (f), whichever occurs first.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group's structure in preparation for the Listing of the Shares on the Stock Exchange. Please refer to the paragraph headed "History, Development and Reorganisation — Reorganisation" in this prospectus for further details.

5. Changes in share capital of subsidiaries

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report, we do not have any other subsidiary. Save as disclosed in the section headed "History, Development and Reorganisation" in this prospectus, there has been no changes to the share capital made by our subsidiaries during the two years preceding the date of this prospectus.

6. Repurchase of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase of Shares by our Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our then sole Shareholder on 8 June 2018, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any applicable laws of the Cayman Islands to be held, or the date of passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority given to our Directors.

(ii) Source of funds

Any repurchase of securities by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules.

Any repurchases by our Company may be made out of profits of our Company, out of the share premium account of our Company, or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or our Company's share premium account, or, if authorised by the Articles and subject to the Companies Law, out of capital.

Our Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement, otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Connected parties

Our Company is prohibited from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person" (as defined in the Listing Rules), which by definition includes a Director, chief executive or substantial Shareholder of our Company or any of our subsidiaries or a close associate of any of them, and a core connected person shall not knowingly sell Shares to our Company on the Stock Exchange.

(iv) Trading restrictions

A company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange up to a maximum of 10% of the number of shares in issue of that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the Stock Exchange or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on the Stock Exchange if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. A company shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(v) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the certificates of the relevant securities must be cancelled and destroyed. Under Cayman Islands law, shares repurchased by a Cayman Islands company may be treated as cancelled and, if so cancelled, the amount of the company's issued share capital shall be reduced by the number of the repurchased shares accordingly although the authorised share capital of the company will not be taken as reduced.

(vi) *Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, or any other interim period (whether or not required by the Listing Rules); and (2) the deadline for our Company to publish an announcement of its results for any year or half-year period under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not purchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if our Company has breached the Listing Rules.

(vii) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares, reporting total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. In addition, annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The Directors' report is also required to contain reference to the purchases made during the year and the Directors' reasons for making such purchases. Our Company shall make arrangements with its broker who effects the purchase to provide our Company in a timely manner the necessary information in relation to the purchase made on behalf of the company to enable our Company to report to the Stock Exchange.

(b) Exercise of the Repurchase Mandate

The exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the Listing of the Shares on the Stock Exchange, would result in up to 100,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and the 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 Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is exercised.

No core connected person (as defined in the Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a sale and purchase agreement dated 16 June 2017 entered into among Mr. Tony Cheung and Mr. Gary Cheung (as sellers), our Company (as buyer) and Prime Pinnacle pursuant to which our Company acquired 51 and 49 ordinary shares of US\$1.00 each in Treasure Express from Mr. Tony Cheung and Mr. Gary Cheung, respectively, and in consideration of such share transfers, (i) 100 Shares were issued and allotted by our Company to Prime Pinnacle (at the direction of each of Mr. Tony Cheung and Mr. Gary Cheung), all credited as fully paid and (ii) credited the one nil-paid Share held by Prime Pinnacle as fully paid;
- (b) a sale and purchase agreement dated 16 June 2017 entered into among Mr. Tony Cheung and Mr. Gary Cheung (as sellers), our Company (as buyer) and Prime Pinnacle pursuant to which our Company acquired 51 and 49 ordinary shares of US\$1.00 each in City Flourish from Mr. Tony Cheung and Mr. Gary Cheung, respectively, and in consideration of such share transfers, 99 Shares were issued and allotted by our Company to Prime Pinnacle (at the direction of each of Mr. Tony Cheung and Mr. Gary Cheung), all credited as fully paid;
- (c) an instrument of transfer dated 16 June 2017 entered into between Mr. Tony Cheung (as transferor) and our Company (as transferee) for the transfer of 51 ordinary shares of Treasure Express from Mr. Tony Cheung to our Company in consideration of our Company allotting and issuing 51 Shares, credited as fully paid, to Prime Pinnacle (at the direction of Mr. Tony Cheung) and crediting the one nil-paid Share held by Prime Pinnacle as fully paid;
- (d) an instrument of transfer dated 16 June 2017 entered into between Mr. Gary Cheung (as transferor) and our Company (as transferee) for the transfer of 49 ordinary shares of Treasure Express from Mr. Gary Cheung to our Company in consideration of our Company allotting and issuing 49 Shares, credited as fully paid, to Prime Pinnacle (at the direction of Mr. Gary Cheung);

- (e) an instrument of transfer dated 16 June 2017 entered into between Mr. Tony Cheung (as transferor) and our Company (as transferee) for the transfer of 51 ordinary shares of City Flourish from Mr. Tony Cheung to our Company in consideration of our Company allotting and issuing 50 Shares, credited as fully paid, to Prime Pinnacle (at the direction of Mr. Tony Cheung);
- (f) an instrument of transfer dated 16 June 2017 entered into between Mr. Gary Cheung (as transferor) and our Company (as transferee) for the transfer of 49 ordinary shares of City Flourish from Mr. Gary Cheung to our Company in consideration of our Company allotting and issuing 49 Shares, credited as fully paid, to Prime Pinnacle (at the direction of Mr. Gary Cheung);
- (g) the Deed of Indemnity;
- (h) the Deed of Non-competition; and
- (i) the Public Offer Underwriting Agreement.

8. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group is the registered owner of the following trademarks:

No.	Trademark	Registered owner	Types and class(es)	Place of registration	Registration number	Validity period
1.	Man Tung	Man Tung AC E&M	37 and 42	Hong Kong	304101399	6 April 2017 to 5 April 2027
2.		Man Tung AC E&M	37 and 42	Hong Kong	304101407	6 April 2017 to 5 April 2027
3.		Man Tung AC E&M	37 and 42	Hong Kong	304101416	6 April 2017 to 5 April 2027
4.		Shun Tung	37 and 42	Hong Kong	304091030	27 March 2017 to 26 March 2027
5.		Shun Tung	37 and 42	Hong Kong	304091049	27 March 2017 to 26 March 2027
6.		Shun Tung	37 and 42	Hong Kong	304091058	27 March 2017 to 26 March 2027

(b) *Domain name*

As at the Latest Practicable Date, our Group was the registered owner of the following domain names, which are material to our Group's business:

Domain name	Registrant Organisation	Expiry date
www.shun-tung.com	Shun Tung	21 December 2018
www.manshungroup.com.hk	Our Company	13 March 2019

FURTHER INFORMATION ABOUT OUR DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

9. Directors

(a) *Particulars of Directors' service contracts*

Each of our executive Directors has entered into a service contract with our Company. Each of them agreed to act as an executive Director for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' written notice served by either party on the other which is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles. Each of our executive Directors is entitled to a fixed basic annual salary for his services. Our Board shall have a complete discretion whether to grant any increase in the salary and any increase so granted shall take effect from such date as our Board may specify. In addition, each of our executive Directors is also entitled to a discretionary management bonus as may be determined by our Board at its sole discretion. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him.

Each of our independent non-executive Directors has signed an appointment letter with our Company. Each of them agreed to act for an initial term of one year commencing from the Listing Date with a director's fee of HK\$180,000 per annum, which may be terminated by not less than one month's written notice served by either party on the other, which is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles.

Save as aforesaid, none of our Directors has or is proposed to have a service contract or an appointment letter with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(b) Remuneration of Directors

- (i) The annual salaries of our executive Directors and the annual director's fees of our independent non-executive Directors are as follows:

Name	Annual amount (HK\$)
<i>Executive Directors</i>	
Mr. Cheung Yuen Tung (張元通)	1,976,000
Mr. Cheung Yuen Chau (張元秋)	1,690,000
Mr. Tang Chi Chiu (鄧志釗)	600,000
<i>Independent non-executive Directors</i>	
Mr. Pang Kam Fai, Dickson (彭錦輝)	180,000
Mr. Lau Yu Ching (劉裕正)	180,000
Mr. Law Chung Lam, Nelson (羅頌霖)	180,000

- (ii) For FY2015, FY2016 and FY2017, the aggregate of the remuneration (including salaries and allowance, if any) paid and benefits in kind granted by our Group to our Directors was approximately HK\$1.3 million, HK\$4.1 million and HK\$5.1 million, respectively.
- (iii) Under the arrangements currently in force at the date of this prospectus, the aggregate of the remuneration (excluding discretionary bonus) payable by our Company and other members of our Group to, and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2018, is expected to be approximately HK\$4.8 million.
- (iv) No amount was paid to, or receivable by, our Directors, for each of the two financial years of our Company immediately preceding the issue of this prospectus as an inducement to join or upon joining our Company.
- (v) No compensation was paid to, or receivable by, our Directors (including past Directors) for each of the two financial years of our Company immediately preceding the issue of this prospectus for the loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (vi) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two financial years of our Company immediately preceding the issue of this prospectus.
- (c) Interests and short positions of Directors in the Shares, underlying shares or debentures of our Company and its associated corporations**

Immediately following the completion of the Capitalisation Issue and the Share Offer but without taking into account the allotment and issue of any Shares upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the

interests and short positions of our Directors and chief executive of our Company in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning 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 in which they are 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 entered in the register referred to therein, or which would be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to our Company and the Stock Exchange, will be as follows:

(i) *Long position in the Shares*

Name of Director	Capacity/ Nature of interest	Number of Shares held immediately after completion of the Capitalisation Issue and the Share Offer	Percentage of shareholding immediately after completion of the Capitalisation Issue and the Share Offer
Mr. Tony Cheung ^(Note)	Interest in a controlled corporation	750,000,000	75%
Mr. Gary Cheung ^(Note)	Interest in a controlled corporation	750,000,000	75%

Note: Prime Pinnacle is beneficially owned as to 51% by Mr. Tony Cheung and 49% by Mr. Gary Cheung. On 12 March 2018, Mr. Tony Cheung and Mr. Gary Cheung entered into the Concert Party Deed to acknowledge and confirm, among other things, that they are parties acting in concert during the Track Record Period and to continue to act in the same manner in our Group upon the Listing. For details, please see the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus. By virtue of the SFO, Mr. Tony Cheung and Mr. Gary Cheung are deemed to be interested in the Shares held by Prime Pinnacle.

(ii) *Long position in the ordinary shares of associated corporation*

Name	Name of associated corporation	Capacity/Nature of interest	Number of share(s) held	Percentage of interest
Mr. Tony Cheung ^(Note)	Prime Pinnacle	Beneficial owner	51	51%
Mr. Gary Cheung ^(Note)	Prime Pinnacle	Beneficial owner	49	49%

Note: Prime Pinnacle is the direct Shareholder of our Company and is an associated corporation within the meaning of Part XV of the SFO.

10. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Share Offer but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, the following persons/entities (not being our Directors or chief executive of our Company) will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of our Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

Name	Capacity	Number of Shares held immediately after completion of the Capitalisation Issue and the Share Offer (long position)	Percentage of shareholding immediately after completion of the Capitalisation Issue and the Share Offer
Prime Pinnacle ^(Note 1)	Beneficial owner	750,000,000	75%
Chan Ho Fung ^(Note 2)	Interest of spouse	750,000,000	75%
Cheng Phyllis Woon Kink ^(Note 3)	Interest of spouse	750,000,000	75%

Note:

1. Prime Pinnacle is beneficially owned as to 51% by Mr. Tony Cheung and 49% by Mr. Gary Cheung. On 12 March 2018, Mr. Tony Cheung and Mr. Gary Cheung entered into the Concert Party Deed to acknowledge and confirm, among other things, that they are parties acting in concert during the Track Record Period and to continue to act in the same manner in our Group upon the Listing. For details, please see the paragraph headed “History, Development and Reorganisation — Concert party arrangement” in this prospectus. By virtue of the SFO, Mr. Tony Cheung and Mr. Gary Cheung are deemed to be interested in the Shares held by Prime Pinnacle.
2. Ms. Chan Ho Fung is the spouse of Mr. Tony Cheung. Accordingly, Ms. Chan Ho Fung is deemed or taken to be interested in the Shares in which Mr. Tony Cheung is interested under the SFO.
3. Ms. Cheng Phyllis Woon Kink is the spouse of Mr. Gary Cheung. Accordingly, Ms. Cheng Phyllis Woon Kink is deemed or taken to be interested in the Shares in which Mr. Gary Cheung is interested under the SFO.

11. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Capitalisation Issue and the Share Offer will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other members of our Group;
- (b) none of our Directors or chief executive of our Company has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in our Shares, underlying Shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to our Company and the Stock Exchange once our Shares are listed on the Stock Exchange;
- (c) none of our Directors nor the experts named in the paragraph headed “Other information — 20. Qualifications and consents of experts” in this appendix below has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Offer Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole; and
- (e) none of the experts named in the paragraph headed “Other information — 20. Qualifications and consents of experts” in this appendix below has any shareholding in any company in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in our Group or is an officer or a servant or partner of or in the employment of an officer or a servant of our Group.

OTHER INFORMATION**12. Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by our Board and the written resolutions of our then sole Shareholder on 8 June 2018.

For the purpose of this section, the following expressions have the meanings set out below unless context otherwise requires:

“Adoption Date”	means 8 June 2018, the date on which the Share Option Scheme is conditionally adopted by our Company by the written resolutions of our sole Shareholder;
“Board”	means our Board from time to time or a duly authorised committee thereof;
“Eligible Employee”	means any employee (whether full time or part time employee, including any executive Directors) of our Company, any of its subsidiaries and any Invested Entity;
“Grantee”	means any Participant who accepts the offer of the grant of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Grantee or the legal representative of such person;
“Group”	means our Company and its subsidiaries from time to time and “member(s) of our Group” shall be construed accordingly;
“Invested Entity”	means any entity in which our Group holds any equity interest;
“Option”	means an option to subscribe for Shares granted pursuant to the Share Option Scheme and for the time being subsisting;
“Option Period”	means in respect of any particular Option, such period as our Board may in its absolute discretion determine, save that such period shall not be more than ten years from the date upon which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and that our Board may at its discretion determine the minimum period for which the Option has to be held before the exercise of the Option;

“Participant” means any person belonging to any of the following classes of participants:

- (a) any Eligible Employee;
- (b) any non-executive director (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of our Group or any Invested Entity;
- (d) any customer of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to our Group or any Invested Entity;
- (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and
- (h) any other group or classes of participants who have contributed or may contribute, by way of joint venture, business alliance, other business arrangement or otherwise, to the development and growth of our Group, and for the purposes of the Share Option Scheme, the Options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of Participants or any discretionary object of a Participant which is a discretionary trust; and

“Scheme Period” means a period commencing on the Adoption Date and ended on the tenth anniversary of the Adoption Date (both dates inclusive).

(a) Purpose of Share Option Scheme

The purpose of the Share Option Scheme is to provide incentives or rewards to Participants for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group and any Invested Entity.

(b) Who may join

Subject to Share Option Scheme and the Listing Rules, our Board shall be entitled at any time and from time to time within the Scheme Period to offer to grant to any Participant as our Board may in its absolute discretion select, and subject to such conditions as our Board may think fit, an Option to subscribe for such number of Shares as our Board may determine at a price calculated in accordance with paragraph (d) below.

Upon acceptance of an offer for grant of Option(s), the Participant shall pay HK\$1.00 to our Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 21 days from the date of the grant.

(c) Grant of option and acceptance of offer

No offer of grant of Options shall be made where inside information has come to our Company's knowledge until an announcement of such inside information has been published in accordance with the Listing Rules and/or Part XIVA of the SFO. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approval of the results of our Company for any year or half-year period or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of the results for any year or half year period or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a results announcement. Our Board may not grant any option to a Participant who is a Director during the periods or times in which such Directors are prohibited from dealing in the Shares prescribed by Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules or any corresponding codes or securities dealing restrictions adopted by our Company.

No Participant shall be granted Options which if exercised in full would result in the total number of Shares already issued under all the Options granted to him which have been exercised and issuable under all the Options granted to him which are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of Shares in issue, provided that if approved by Shareholders in general meeting with such Participant and his close associates (or his associates if such Participant is a connected person) abstaining from voting, our Company may make further grant of Options to such Participant (the "**Further Grant**") notwithstanding that the Further Grant would result in the total number of Shares already issued under all the Options granted to such Participant which have been exercised and issuable under all the Options granted to him which are for the time being subsisting and unexercised in any 12-month period exceed 1% of the total number of Shares in issue. In such circumstances, we must send a circular to the Shareholders and the circular must disclose the identity of the Participant, the number and terms of the Options to be granted and Options previously granted to such Participant and all the information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Participant must be fixed before the

Shareholders' approval and the date of the meeting of our Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the relevant subscription price.

Unless our Board otherwise determined and stated in the offer of the grant of Options to a Participant, a Grantee is not required to achieve any performance target before any Options granted under the Share Option Scheme can be exercised.

(d) Price of Shares

The subscription price for the Shares subject to any particular Option shall be such price as determined by our Board in its absolute discretion at the time of the grant of the relevant Option but in any case the relevant subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant of the Option, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant of the Option; and (iii) the nominal value of a Share.

For the purpose of determining the relevant subscription price where the Shares have been listed on the Stock Exchange for less than five trading days preceding the date of the grant of the Option, the issue price of the Shares shall be deemed to be the closing price of the Shares on the Listing Date for any trading day falling within the period before the Shares are listed on the Stock Exchange.

(e) Maximum amount of Shares

- (i) The total number of Shares which may be issued upon exercise of all Options (excluding for this purpose Options which have lapsed in accordance with the terms of the Share Option Scheme and any other schemes) to be granted under the Share Option Scheme and other schemes must not, in aggregate, exceed 10% of the Shares in issue on the Listing Date. On the basis of 1,000,000,000 Shares in issue on the Listing Date, the limit will be equivalent to 100,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.
- (ii) Our Company may refresh the 10% limit by seeking prior approval from our Shareholders in a general meeting, provided that the total number of Shares which may be issued upon exercise of all Options and any other share option schemes of our Company, in aggregate, must not exceed 10% of the total number of Shares in issue as at the date of such Shareholders' approval of the refreshed limit. Options previously granted under the Share Option Scheme or any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme) will not be counted for the purpose of calculating the refreshed limit.

- (iii) Our Company may also grant Options beyond the 10% limit by seeking Shareholders' approval in a general meeting, provided that the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. In such event, our Company shall send a circular to our Shareholders containing a generic description of the specified Grantees who may be granted such Options, the number and terms of such Options to be granted, the purpose of granting such Options, an explanation as to how the terms of the Options serve such purpose and the information required by the Listing Rules.
- (iv) Notwithstanding the foregoing, our Company must not grant any options if the aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company, exceed 30% of the Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

(f) Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined by our Board absolutely, provided that such period shall not be more than ten years from the date upon which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme. Our Board may, at its discretion, determine the minimum period for which the Option has to be held before the Option can be exercised.

The exercise of any Option shall be subject to our Shareholders in general meeting approving any increase in the authorised share capital of our Company. Subject thereto, our Board shall make available sufficient authorised but unissued share capital of our Company for purpose of allotment of shares upon exercise of options.

(g) 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 in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Grantee shall entitle us to cancel any outstanding Option or part thereof granted to such Grantee (to the extent not already exercised) without incurring any liability on our Company.

(h) Rights on death

If a Grantee dies before exercising the Options in full, his legal personal representative(s) may exercise the Options in whole or in part (to the extent that it has become exercisable and not already exercised prior to such date of death) within a period of 12 months from the date of death, failing which such Option will lapse.

(i) *Changes in capital structure*

In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganisation of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made in:

- (i) the number or nominal amount of Shares subject to the Option so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the Option; and/or
- (iv) the maximum number of Shares referred in sub-paragraph (e) above and the Further Grant referred in sub-paragraph (c) above.

Our Company's independent financial adviser or auditors shall certify in writing to our Board as to whether the corresponding alterations are in their opinion fair and reasonable. Any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he was entitled to before such alteration and that the aggregate subscription price payable by a Grantee on the full exercise of any Option shall remain as close as possible (but shall not be greater than) as it was before such event. No such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group for cash or as consideration in a transaction.

The capacity of our Company's auditors and independent financial advisers is that of experts and not of arbitrators and their certification, in the absence of manifest error, shall be final and binding on our Company and the Participants. The cost of our independent financial advisers and the auditors shall be borne by us.

(j) *Rights on take-over*

In the event of a general or partial offer (whether by way of take-over offer, merger, share repurchase offer, or privatisation proposed by scheme of arrangement or otherwise in like manner), is made to all Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert (as defined in the Takeovers Code) with the offeror, we shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, Shareholders. If such offer becomes or is declared unconditional, the Grantee shall be entitled to exercise the Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to us in exercise of the Option at any time with 14 days after the date on which such offer becomes or is declared unconditional.

(k) *Rights on a compromise or arrangement*

- (i) In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, we shall on the same date as or soon after it despatches such notice to each Shareholder give notice thereof to all Grantees and thereupon, each Grantee, subject to the provisions of all applicable laws (or where permitted under sub-paragraph (h) above, and his legal personal representative(s)) shall be entitled to exercise all or any of his Options (to the extent which has become exercisable and not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to us, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon we shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.
- (ii) In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, we shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any Grantee (or where permitted under sub-paragraph (h) above his legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the Court be entitled to exercise his Option (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. We 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 would have been the case had such Shares been subject to such compromise or arrangement.

(l) *Rights of Grantee ceasing to be a Participant*

In the event of the Grantee ceasing to be a Participant for any reason other than his death or termination of his employment on one or more of the grounds specified in the sub-paragraph (m)(iv) below, then, if the Option Period has not at the date of such cessation commenced, the Option shall lapse and if the Option Period has commenced, the Grantee may exercise the Option in accordance with the Share Option Scheme, up to his entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary or the relevant Invested Entity whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as our Board may determine.

(m) Lapse of Option

An Option shall lapse automatically and shall cease to be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);
- (ii) the expiry of any periods referred to in paragraphs (h) and (l);
- (iii) the date on which the offer (or the case may be, revised offer) referred to in sub-paragraph (j) above closes;
- (iv) subject to sub-paragraph (k)(i) above, the date of the commencement of the winding-up of our Company;
- (v) the date on which the Grantee ceases to be a Participant by reason of the termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his employment summarily at common law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary or the relevant Invested Entity. A resolution of our Board or the board of directors of the relevant subsidiary or the board of directors of the relevant Invested Entity to the effect that employment of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee;
- (vi) subject to sub-paragraph (k)(ii) above, the date when the proposed compromise or arrangement becomes effective;
- (vii) the date on which the Grantee commits a breach of sub-paragraph (g) above; or
- (viii) if our Directors at their absolute discretion determine that the Grantee (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the Grantee or his associate on the one part and our Group or any Invested Entity on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, our Directors shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his Options will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

(n) Ranking of Shares

Shares allotted and issued upon exercise of an Option will be subject to all provisions of our Company's articles of associations amended from time to time and will carry the same rights in all respects with the existing fully paid Shares in issue as from the day when the name of the Grantee is registered on the register of members of our Company and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date when the name of the Grantee is registered on the register of members of our Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the Grantee is registered on the register of members of our Company, provided always that when the date of exercise of the Option falls on a day upon which the register of members of our Company is closed then the exercise of the Option shall become effective on the first Business Day in Hong Kong on which the register of members of our Company is re-opened. A Share allotted upon exercise of an Option shall not carry any voting right until the completion of the registration of the Grantee as the holder thereof.

(o) Cancellation of Options granted

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be subject to the prior written consent of the relevant Grantee and approval of our Directors.

Where our Company elects to cancel Options and issue new ones to the same Grantee, the issue of such new Options may only be made under a scheme with available unissued Options (excluding cancelled Options) within the limit approved by the Shareholders.

(p) The Scheme Period

Subject to the termination of the Share Option Scheme, the Share Option Scheme will be valid and effective for the Scheme Period, after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Options granted during the Scheme Period and remain unexercised immediately prior to the end of the Scheme Period shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the Share Option Scheme.

(q) Alteration and termination of Share Option Scheme

The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of participants except (i) with the approval of the Shareholders in general meeting; or (ii) where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of our Board in relation to any alteration to the term of the Share Option Scheme shall be approved by the Shareholders in general meeting except where the alteration take effect automatically under the existing terms of the Share Option Scheme.

The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 17 of the Listing Rules and no such alteration shall operate to affect adversely the terms of issue of any option 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 options granted under the Share Option Scheme and provided further that any alterations to the terms and conditions of the Share Option Scheme which are of a material nature shall first be approved by the Stock Exchange.

Our Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

Our Company, by ordinary resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered. On termination, the provision of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(r) Granting of option to a Director, chief executive of our Company or substantial Shareholder or any of their associates

Where options are proposed to be granted to a Director, chief executive of our Company or substantial Shareholder, or any of their respective associates, the proposed grant must comply with the requirements of Rule 17.04(1) of the Listing Rules and be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a substantial Shareholder or an independent non-executive Director or their respective associates will result in the Shares issued and to be issued upon exercise of all options granted and to be granted (whether exercised, cancelled or and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the relevant class of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5.0 million, then the proposed grant of options must be approved by the Shareholders in a general meeting. At such general meeting, the grantee, his associates and all core connected persons of our Company must abstain from voting, unless they intend to vote against the proposed grant and provided that his intention to do so has been stated in the circular. Our Company will send a circular to

our Shareholders containing all the information required under the Listing Rules, including (i) details of the number and terms of the Options (including the Option period, performance targets (if any), basis of determination of subscription price and the rights attached to the Shares or the Option) to be granted to each substantial Shareholder or independent non-executive Director, or any of their respective associates, which must be fixed before the Shareholders meeting, and the date of our Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price; (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a Grantee of the Options) to the independent Shareholders as to voting; and (iii) all other information as required by the Listing Rules.

In addition, any change in the terms of the Option granted to a substantial Shareholder or an independent non-executive Director, or any of their respective associates must also be approved by the Shareholders in a general meeting.

The requirements for the grant of an option to a Director or chief executive of our Company set out in Rules 23.04(1), (2) and (3) shall not apply where the proposed grantee is only a proposed Director or chief executive of our Company.

(s) Conditions of Share Option Scheme

The Share Option Scheme is conditional upon (i) the Stock Exchange granting approval of the listing of and permission to deal in the Shares which fall to be issued upon exercise of the Options granted under the Share Option Scheme; and (ii) the commencement of dealings in the Shares on the Stock Exchange.

As at the Latest Practicable Date, no options had been granted or agreed to be granted by our Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of Options under Share Option Scheme and listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme.

13. Tax and other indemnities

Mr. Tony Cheung, Mr. Gary Cheung and Prime Pinnacle (collectively the “**Indemnifiers**”) have pursuant to the Deed of Indemnity, on a joint and several basis, undertake to indemnify our Company and other members of our Group and at all times keep the same fully indemnified on demand and hold each of our Company and other members of our Group harmless from and against all or any depletion in, loss of or reduction in, the value of our respective assets, or increase in our respective liabilities, or any loss or depreciation by our Company or other members of our Group, as a direct or indirect result of, among other things:

- (a) to the extent of which is applicable, any duty which is or hereafter becomes payable by virtue of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any law equivalent or similar thereof under the laws of any jurisdiction outside Hong

Kong by reason of the death of any person and by reason of the assets of our Company and other members of our Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death, as a result of that person making or having made a relevant transfer to our Company and any member of our Group at any time on or before the Listing Date;

- (b) taxation falling on any member of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received or entered into (or deemed to be so earned, accrued, received or entered into) on or before the Listing Date or any event or transaction on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company;
- (c) any claim, fine or other form of liability that may arise from breach of any law, regulation and rule by any member of our Group before the Listing Date;
- (d) all reasonable costs (including all legal costs), expenses, interests, penalties or other liabilities which our Company or any member of our Group may properly incur in connection with:
 - (i) the investigation, assessment or contesting of any claim under (b) above;
 - (ii) the settlement of any claim under the Deed of Indemnity;
 - (iii) any legal or arbitration proceedings in which our Company or any member of our Group claims under or in respect of the Deed of Indemnity and in which judgement, award or decision is given in favour of our Company or any member of our Group; or
 - (iv) the enforcement of any such settlement or decision or judgement or award in relation to any legal proceedings referred to in (iii) above;
- (e) any and all expenses, payments, sums, outgoings, fees, demands, claims, actions, proceedings, judgments, damages, losses, costs (including but not limited to legal and other professional costs), charges, contributions, liabilities, fines and penalties (collectively the “Cost”) which any member of our Group may incur, suffer or accrue, directly or indirectly from:
 - (i) any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Inland Revenue Ordinance, the Employees’ Compensation Ordinance and any other applicable laws, rules, regulations and tenancy agreements by any member of our Group and/or all litigations, arbitrations, claims, complaints, demands and/or legal proceedings by or against any member of our Group in Hong Kong, the PRC, the Cayman Islands, the Republic of Seychelles or any other part of the world, which was issued, accrued and/or arising from any act of any member of our Group at any time on or before the Listing Date, including but not limited to, our Group’s non-compliance matters occurred during the Track Record Period;

- (ii) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the Listing Date;
- (iii) the implementation of the corporate reorganisation conducted in preparation for the Share Offer, details of which are set out in the section headed “History, Development and Reorganisation — Reorganisation” of this prospectus, and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the Listing Date;
- (iv) any failure to obtain the necessary licences, consents or permits under the laws of Hong Kong for any member of our Group’s valid and legal establishment and/or operation on or before the Listing Date; and
- (v) any errors, discrepancies or missing documents in the statutory record of any member of our Group on or before the Listing Date.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for any taxation, liability or claims mentioned in the four paragraphs immediately above where:

- (a) to the extent that full provision has been made for such taxation, liabilities or claim in the audited accounts of as set out in the Accountants’ Report contained in Appendix I to this prospectus or the audited accounts of any member of our Group for the Track Record Period (the “**Accounts**”);
- (b) to the extent that such taxation or liabilities or claim arise or is/are incurred as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority in any part of the world coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect;
- (c) to the extent that such taxation or liability is discharged prior to the Listing Date by another person who is not a member of our Group and that none of the members of our Group is required to reimburse such person in respect of the discharge of the taxation or liability;
- (d) for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2017 up to and including the Listing Date;
- (e) to the extent that such taxation or liability or claim would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected after the Listing Date without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the Listing Date or carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date; or

- (f) to the extent that any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

14. Litigation

Save as disclosed in this prospectus, neither our Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against our Company or any of its subsidiaries.

15. Agency fees or commissions received

Except as disclosed in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Underwriting commissions and expenses" in this prospectus, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

16. Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; (b) the Over-allotment Option; and (c) the exercise of options which may be granted under the Share Option Scheme, representing 10% of the Shares in issue on the Listing Date. The Sole Sponsor is entitled to sponsor's fee in the amount of HK\$5.68 million.

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to sponsor set forth in Rule 3A.07 of the Listing Rules.

17. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed Messis Capital Limited as its compliance adviser to provide consultancy services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with the Listing Rules in respect of its financial results for the first full financial year ended commencing after the Listing Date.

18. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately US\$5,460 (equivalent to approximately HK\$42,500) and are payable by our Company.

19. Promoters

Our Company has no promoter. Within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Share Offer or the related transactions described in this prospectus.

20. Qualifications and consents of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

Name	Qualification
China Galaxy International Securities (Hong Kong) Co., Limited	A corporation licenced by the SFC to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants
Mr. Chan Chung	Barrister-at-law of Hong Kong
Frost & Sullivan International Limited	Industry research consultant
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
RSM Tax Advisory (Hong Kong) Limited	Tax adviser
CHENG & CHENG LIMITED	Internal control adviser

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interest in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

21. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

22. 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).

23. Taxation of holders of Shares**(a) Hong Kong***(i) Profits*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

(ii) Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged on each of the purchaser and seller at the current rate of 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

(iii) Estate duty

Estate duty has been abolished in Hong Kong by the Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006. The estate of a person who died before 11 February 2006 is subject to the provisions of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong), and the Shares are Hong Kong property for this purpose. The estate duty chargeable in respect of estates of persons dying between the transitional period from and including 15 July 2005 to 11 February 2006 with the principal value exceeding HK\$7.5 million shall be a nominal amount of HK\$100. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of shares whose death occurs on or after 11 February 2006.

(b) The Cayman Islands

Under the Cayman Islands law currently in force, no stamp duty is payable in the Cayman Islands on transfers of our Shares except those which hold interests in land in the Cayman Islands.

(c) *Consultation with professional advisers*

Intended holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercising any rights attaching to them.

24. Miscellaneous

(a) Save as disclosed herein:

- (i) within the two years immediately preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no share, warrant or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (cc) our Company has no outstanding convertible debt securities;
 - (dd) no founder, management or deferred shares or any debentures (including convertible bonds) of our Company have been issued or agreed to be issued; and
 - (ee) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares or debenture of any of our Company or our Subsidiaries.
- (ii) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (iii) there has not been any interruption in the business of our Group which has had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this prospectus;
- (iv) none of the equity and debt securities of our Company is listed or dealt with on any other stock exchange nor is any listing or submission to deal being or proposed to be sought;
- (v) our Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of our Company;
- (vi) there are no arrangements under which future dividends are waived or agreed to be waived; and

- (vii) all necessary arrangements have been made to enable the Shares to be admitted into CCASS;
- (b) Subject to the provisions of the Companies Law, the principal share register of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch share register of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Board otherwise agree, all transfers and other documents of title of our Shares must be lodged for registration with and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration pursuant to section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) were (i) copies of the Application Forms; (ii) written consents referred to in the paragraph headed “Other information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus; and (iii) copies of the material contracts referred to in the paragraph headed “Further information about the business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of D. S. Cheung & Co. of 29/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report of our Group issued by KPMG, the text of which is set out in Appendix I to this prospectus;
- (c) audited consolidated financial statements of our Group for the three years ended 31 December 2015, 2016 and 2017;
- (d) the report on unaudited pro forma financial information of our Group issued by KPMG, the text of which is set out in Appendix II to this prospectus;
- (e) the industry report prepared by Frost & Sullivan referred to in the section headed “Industry Overview” in this prospectus;
- (f) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Companies Law referred to in Appendix III to this prospectus;
- (g) the Companies Law;
- (h) the service contracts and appointment letters referred to in the paragraph headed “Further information about our Directors, substantial Shareholders and experts — 9. Directors — (a) Particulars of Directors’ service contracts” in Appendix IV to this prospectus;
- (i) the rules of the Share Option Scheme referred to in the paragraph headed “Other information — 12. Share Option Scheme” in Appendix IV to this prospectus;
- (j) the material contracts referred to in the paragraph headed “Further information about the business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus;
- (k) the written consents referred to in the paragraph headed “Other information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus;

- (l) the tax opinion issued by RSM Tax Advisory (Hong Kong) Limited, the tax adviser to our Group;
- (m) the internal control report prepared by CHENG & CHENG LIMITED, the internal control adviser to our Group; and
- (n) the legal opinions issued by Mr. Chan Chung, our Legal Counsel, in respect of certain aspects of Hong Kong laws and regulations applicable to our Group.

Man Shun Group (Holdings) Limited
萬順集團(控股)有限公司