
SUMMARY

This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of this [REDACTED]. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any investment in companies [REDACTED]. Some of the particular risks relating to investing in the [REDACTED] are set out in the section headed “Risk factors”. You should read that particular section carefully before you decide to invest in the [REDACTED]. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary” of this [REDACTED].

OVERVIEW

We are an established main contractor in Hong Kong focusing on providing (i) building construction services; and (ii) repair, maintenance, alteration and addition (“**RMAA**”) works services. During the Track Record Period, a majority of our revenue was derived from our building construction projects.

Our Group is listed as a Group C (confirmed) contractor under the Contractor List maintained by the WBDB in the “Building” category. Group C (confirmed) contractors are the highest ranking contractors in the Contractor List in terms of tender limit, and are eligible to tender for public works contracts of any values exceeding HK\$185.0 million.

In addition, we are one of the 29 contractors under the “Repair and Restoration of Historic Buildings” category of the Specialist List and is allowed to carry out works in relation to repair and restoration of Western-style historic buildings in Hong Kong. Leveraging our extensive experience in the construction industry and our qualification under the Specialist List, we acted as the main contractor and completed the project with a contract value of approximately HK\$354.1 million in relation to the conservation and revitalisation of the Former Police Married Quarters by transforming it into the currently-known PMQ, a creative landmark on Hollywood Road, Hong Kong (the “**PMQ Project**”). For the years ended 31 March 2014 and 2015, revenue derived from the PMQ Project accounted for approximately 83.4% and 20.9% of the total revenue respectively.

OUR BUSINESS MODEL

We have accumulated over 30 years of experience in providing construction services to our customers and the major projects carried out by our Group during the Track Record Period include revitalisation of heritage projects, construction of hospital, renovation of universities and schools and maintenance of public housing estates.

We act as the main contractor in all our projects during the Track Record Period and delegate works to our sub-contractors by trade on a back-to-back basis under supervision of and management by our project management team. Our role as a main contractor generally includes overall project management and supervision of works conducted by our sub-contractors to ensure their conformity to contractual specification and that projects are completed on time and within budget.

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We normally secure our projects through tendering. We usually identify Government project through reviewing the tender invitations from various Government departments published on the Gazette. As for projects from non-Government customers, we are generally invited by the customers by way of invitation letters to submit a tender for a potential project. For the years ended 31 March 2014 and 2015, revenue derived from Government departments amounted to approximately 88.1% and 22.3% of our total revenue. Upon having awarded a project by our customer, we will form a project management team, engage various sub-contractors, obtain necessary permits and approvals, procure the requisite materials and machineries and take out necessary insurances.

Major license and qualifications

Our Group holds various construction related license and qualifications granted by different Government departments and quasi-Government organisations that enable us to bid for and carry out Government and quasi-Government projects. As at the Latest Practicable Date, our Group has obtained the following license and qualifications that are material to our business operations in Hong Kong:

| Relevant authority/organisation | Relevant list/category | License/Qualification | Date of first grant/registration | Validity period | Authorised contract value |
|---------------------------------|--|-----------------------|----------------------------------|-----------------|--|
| WBDB | Approved Contractors for Public Works — Buildings category | Group C (confirmed) | 30 June 2009 | Not applicable | Contracts of any value exceeding HK\$185.0 million |
| WBDB | Approved Suppliers of Materials and Specialist Contractors for Public Works — Repair and Restoration of Historic Buildings Category (for “Western Style Buildings only”) | — | 4 November 2013 | Not applicable | No limit |
| Buildings Department | General Building Contractor | — | 6 February 1996 | 21 October 2017 | No limit |
| Housing Authority | Housing Authority List of Building Contractors — Building (New Works) Category | Group NW1 (confirmed) | 15 November 2001 | Not applicable | New works contracts with a value of up to HK\$550.0 million |
| Housing Authority | Housing Authority List of Building Contractors — Maintenance Works Category | Group M1 (confirmed) | 8 September 2006 | Not applicable | Maintenance and improvement works with a value of up to HK\$50.0 million |

For further details of our major licenses and qualifications, please refer to the section headed “Business — License and Qualifications” in this document.

CUSTOMERS AND SUB-CONTRACTORS

Customers

We provide building construction and RMAA works services to customers from both the public and private sectors in Hong Kong. During the Track Record Period, our business opportunities generally arose from reviewing the tender invitations from various Government published on the Gazette or receiving invitation for tender from customers in the private sector.

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Due to our long history and presence in Hong Kong, our proven track record and our well-established relationship with our existing customers, we are able to rely on our existing customer base, reputation and customer referrals such that we do not rely on promotional activities.

Our major customers include the Government, quasi-Government organisations, universities, schools, institutions and incorporated owners of private buildings. For the years ended 31 March 2014 and 2015, revenue derived from our Group’s top five largest customers amounted to approximately HK\$165.7 million and HK\$199.0 million, representing approximately 96.2% and 96.1% of our total revenue. In addition, a significant portion of our revenue was derived from the Government and quasi-Government organisations^(Note 1), which accounted for approximately 90.8% and 74.0% of our total revenue for the years ended 31 March 2014 and 2015 respectively. Despite such customer concentration, our Directors consider that we are not reliant on any single customer for reasons set out in the section headed “Business — Customers — Customer Concentration” in this document.

The table below sets forth a breakdown of our revenue, gross profit and gross profit margin by business segment during the Track Record Period:

| | For the year ended 31 March | | | | | | | | | |
|-----------------------|-----------------------------|--------------|---------------|--------------|---------------------|----------------|--------------|---------------|--------------|---------------------|
| | 2014 | | | | | 2015 | | | | |
| | Revenue | | Gross profit | | Gross profit margin | Revenue | | Gross profit | | Gross profit margin |
| | HK\$’000 | % | HK\$’000 | % | % | HK\$’000 | % | HK\$’000 | % | % |
| Building construction | 143,540 | 83.3 | 24,171 | 99.7 | 16.8 | 134,281 | 64.9 | 16,197 | 53.8 | 12.1 |
| RMAA works | 28,681 | 16.7 | 80 | 0.3 | 0.3 | 72,750 | 35.1 | 13,881 | 46.2 | 19.1 |
| Total | <u>172,221</u> | <u>100.0</u> | <u>24,251</u> | <u>100.0</u> | <u>14.1</u> | <u>207,031</u> | <u>100.0</u> | <u>30,078</u> | <u>100.0</u> | <u>14.5</u> |

As part of our corporate strategies for business expansion, our Group has been actively expanding our RMAA business since 2013 in order to broaden our customer base and capture the increasing demand for RMAA services in Hong Kong. As an effort to expand our market share and solidify our capacity in the RMAA industry in Hong Kong, we adopted a competitive cost-plus pricing model in setting our tender price and generally tendered for less complex RMAA projects with smaller contract sum which led to the lower gross profit and gross profit margin from our RMAA business in the year ended 31 March 2014. Leveraging the award of our qualification in the “Repair and Restoration of Historic Buildings” category under the Specialist List in 2013 and our proven capability in providing quality RMAA services, we adjusted our pricing and tendering approach in 2014 by tendering for larger RMAA contracts with a tender price that allow us to attain a higher gross profit margin. As a result, the revenue contribution of our RMAA business increased from 16.7% in the year ended 31 March 2014 to 35.1% in the year ended 31 March 2015, with the gross profit margin of our RMAA business rocketed from approximately 0.3% to 19.1% during the same period. In addition, the average revenue recognised per major RMAA contract increased from approximately HK\$2.8 million to approximately HK\$7.8 million during the Track Record Period.

¹ For the purpose of this document, quasi-Government organisations include (i) a statutory body in Hong Kong with focus on managing all the public hospitals and institutes; (ii) a statutory body in Hong Kong with focus on housing development; and (iii) a statutory body in Hong Kong for promoting safety and health at work and sustaining the workforce.

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Going forward, our Group shall continue to keep track of the tenders in both business segments. In deciding whether or not to bid for a specific tender, our Group would take into consideration several principal factors including, but not limited to, the profitability of the project, complexity and technicality involved, our capacity during the contract period and availability of suitable sub-contractors and workers.

Sub-contractors

For the purpose of maximising our cost efficiency and utilising expertise of other specialist contractors, we generally sub-contract the works to our sub-contractors by trade on a back-to-back basis. During the Track Record Period, works that we delegated to our sub-contractors include demolition, hoarding, concreting, painting, redecoration and roofing. For the years ended 31 March 2014 and 2015, our Group engaged 33 and 40 sub-contractors respectively, all of whom were located in Hong Kong. During the Track Record Period, total sub-contracting fees paid by our Group accounted for approximately HK\$99.3 million and HK\$123.8 million respectively, representing approximately 67.1% and 70.0% of our Group’s total direct costs. For the two years ended 31 March 2014 and 2015, our Group’s top five largest sub-contractors accounted for approximately 41.2% and 38.1% of our Group’s total direct costs respectively.

ACCIDENT

For the years ended 31 March 2014 and 2015 and up to the Latest Practicable Date, our Group has recorded one, one and nil “reportable accidents” involving injuries to workers who were either employed by our Group or by our sub-contractors. Having considered that our accident rate per 1,000 workers over the Track Record ranged from 0.0 to approximately 21.3, which were lower than the industry average of 38.7 accident in the calendar year 2014 according to the Ipsos Report and none of the accidents has resulted in fatal injury, our Directors are of the view that our occupational health and safety management system is effective.

COMPETITIVE STRENGTHS

Our Directors believe our competitive strengths include (i) having a strong and reliable customer base comprising primarily Government departments (including the Architectural Services Department and the Housing Authority) and quasi-Government organisations; (ii) having solid track record in conserving and revitalising Hong Kong heritage, as proven by the completion of the PMQ Project; (iii) having extensive experience and diversified qualifications in the construction industry; (iv) our commitment in maintaining safety standard, quality control and environmental protection; and (v) having a management team that possesses extensive experience and qualifications. For further details of our competitive strengths, please refer to the section headed “Business — Competitive Strengths” in this document.

THIS DOCUMENT IS IN DRAFT FORM. The information contained herein is incomplete and is subject to change. This document must be read in conjunction with the section headed “Warning” on the cover of this document.

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SUMMARY OF KEY FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as at and for the years ended 31 March 2014 and 2015, as applicable.

| | Year ended 31 March | |
|--|----------------------------|-----------------|
| | 2014 | 2015 |
| | HK\$'000 | HK\$'000 |
| Revenue | 172,221 | 207,031 |
| Gross profit | 24,251 | 30,078 |
| Profit before taxation | 14,849 | 21,312 |
| Profit and total comprehensive income for the year attributable to the owners of the Company | 12,346 | 17,796 |

| | As at 31 March | |
|---------------------------------------|-----------------------|-----------------|
| | 2014 | 2015 |
| | HK\$'000 | HK\$'000 |
| Non-current assets | 1,137 | 1,604 |
| Current assets | 85,342 | 125,265 |
| Current liabilities | 42,412 | 71,112 |
| Net current assets | 42,930 | 54,153 |
| Total assets less current liabilities | 44,067 | 55,757 |
| Non-current liabilities | 281 | 375 |
| Net assets | 43,786 | 55,382 |

| | Year ended 31 March | |
|--|----------------------------|-----------------|
| | 2014 | 2015 |
| | HK\$'000 | HK\$'000 |
| Net cash from operating activities | 14,677 | 28,441 |
| Net cash (used in) from investing activities | (11,343) | 231 |
| Net cash used in financing activities | (23,086) | (7,996) |
| Net (decrease) increase in cash and cash equivalents | (19,752) | 20,676 |
| Cash and cash equivalents at beginning of the year | 54,674 | 34,922 |
| Cash and cash equivalents at the end of the year | 34,922 | 55,598 |

For further details and analysis of our financial information, please refer to the section headed “Financial Information” in this document.

Selected key financial ratios

| | For the year ended 31 March/ As at 31 March | |
|---------------------|--|-------------|
| | 2014 | 2015 |
| Gross profit margin | 14.1% | 14.5% |
| Net profit margin | 7.2% | 8.6% |
| Gearing ratio | 4.0% | 1.7% |
| Current ratio | 2.0x | 1.8x |
| Return on equity | 30.7% | 35.9% |
| Return on assets | 13.0% | 16.7% |

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The increase in gross profit margin and net profit margin from 2014 to 2015 was primarily attributable to our strategic change in pricing policy for our RMAA business with a view of optimising our profit margin. The decrease in gearing ratio was attributable to the decrease in bank borrowings from approximately HK\$1.1 million as at 31 March 2014 to HK\$nil million as at 31 March 2015. The decrease in current ratio was mainly attributable to the increase in other payables and accrued charges by approximately HK\$39.8 million. The increase in return on equity and return on assets was mainly attributable to the increase in our net profit from approximately HK\$12.3 million for the year ended 31 March 2014 to approximately HK\$17.8 million for the year ended 31 March 2015.

NON-COMPLIANCE

We have been involved in a non-compliance matter in relation to non-compliance with certain conditions and terms of Government leases and occupation permits with respect to prescribed land use regarding our leased property in Lai Chi Kok, Hong Kong. Please refer to the section headed “Business — Legal Compliance — Non-compliance of our Group” in this document for details of such non-compliance matter and the rectification measures taken.

[REDACTED] EXPENSES

Our financial performance for the year ending 31 March 2016 will be affected by the non-recurring expenses incurred in relation to the [REDACTED]. The [REDACTED] expenses are estimated to be approximately HK\$[REDACTED] (assuming the [REDACTED] are not exercised and assuming the [REDACTED] of HK\$[REDACTED] per [REDACTED] Share, being the midpoint of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED] Share), of which approximately HK\$[REDACTED] is directly attributable to the issue of [REDACTED] which is to be accounted for as a deduction from equity; (ii) approximately HK\$[REDACTED] is to be charged to profit or loss of our Group for the year ended 31 March 2016; and (iii) approximately HK\$[REDACTED] is to be borne by our [REDACTED]. Such cost is a current estimate and for reference only. The final amount to be recognised to the profit or loss of our Group or to be capitalised is subject to adjustment based on audit and the changes in variables and assumptions. No [REDACTED] expense was incurred during the Track Record Period as the preparation of [REDACTED] had not yet begun. Prospective investors should note that the financial performance of our Group for the year ended 31 March 2016 would be significantly affected by the estimated [REDACTED] expenses mentioned above.

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on our principal business of provision of building construction and RMAA services in Hong Kong, with one new building construction project and eight new RMAA projects were commenced or to be commenced. The aggregate contract sum of all such building construction and RMAA projects (i.e. those in progress as at 31 March 2015 and those that were commenced or to be commenced subsequent to the Track Record Period and up to the Latest Practicable Date) amounted to approximately HK\$302.5 million. Please refer to the section headed “Business — Business Model” for further details of our projects in progress as at the Latest Practicable Date.

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Our business model, revenue structure and cost structure remained unchanged since 31 March 2015. Our projects on hand continued to contribute revenue subsequent to the Track Record Period and our Directors do not note any material interruption of progress works, material delay or any other exceptional situation for such existing contracts. Based on our unaudited management accounts, we recorded significant decrease in our revenue and gross profit for the two months ended 31 May 2015 as compared to the two months ended 31 May 2014, mainly because most of the projects in progress have just commenced and no progress payments have been received from such projects as at 31 May 2015.

In April 2015, we have declared an interim dividend of HK\$33.5 million out of historical profits of our Company to Mr. Lam. Please refer to the section headed “Financial Information — Dividend Policy and Distributable Reserves” in this document for further details of our dividend policy.

Save as the [REDACTED], our Group did not have any significant non-recurrent items in our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period. Our results of operation for the year ending 31 March 2016 are expected to be significantly affected by the non-recurring [REDACTED] as discussed in the paragraph headed “[REDACTED]” below in this section.

The net current assets of our Group as at 31 March 2015 were approximately HK\$54.2 million. Subsequently, the outstanding balance of all amounts due from a related company was settled in full by setting off against the interim dividend of HK\$33.5 million declared by our Group in April 2015. As at 31 May 2015, approximately 94.7% of the trade receivables as at 31 March 2015 had been subsequently settled, and approximately 95.2% of the trade payables as at 31 March 2015 had been subsequently settled had been subsequently settled.

CONTROLLING SHAREHOLDERS

For the purpose of the GEM Listing Rules, Mr. Lam and Cheers Mate are our Controlling Shareholders. Cheers Mate is an investment holding company owned as to 100% by Mr. Lam, our chairman and executive Director, and, as at the Latest Practicable Date, it had not commenced any substantial business activities. In order to avoid any potential competition between the Company and the Controlling Shareholders, the Controlling Shareholders have entered into the Deed of Non-competition with the Company and have undertaken that neither they nor any of their associates would engage in any business that competes directly or indirectly or may compete with the core business activity of any member of our Group. For further details of our Controlling Shareholders and the Deed of Non-competition, please refer to the section headed “Relationship with Controlling Shareholders” in this document.

Mr. Lam is interested in certain continuing connected transactions, particulars of which are set out in the paragraph headed “Connected Transactions — Exempt Continuing Connected Transactions” in this document.

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[REDACTED]

BUSINESS STRATEGY, FUTURE PLANS AND [REDACTED]

Our Group intends to strengthen our market position in Hong Kong by way of (i) continuing to strengthen our market position in the construction industry and expand our market share in Hong Kong; (ii) expanding our building construction service capacity to cover “design and build” projects; (iii) continuing to improve our operational efficiency and enhance our quality of service; (iv) further strengthening our manpower; and (v) continuing to adhere to prudent financial management to ensure sustainable growth and capital efficiency. For further details of our business strategies, please refer to the section headed “Business — Business Strategies” in this document.

The net [REDACTED] to be received by our Group from the [REDACTED] based on the [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicated [REDACTED] range), after deducting the [REDACTED] and estimated expenses payable in relation to the [REDACTED], are estimated to be approximately HK\$[REDACTED] million (assuming the [REDACTED] is not exercised and without taking into account any Shares which may be allotted

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and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). Our Directors presently intend that the [REDACTED] will be applied as follows:

[REDACTED]

Approximately HK\$[REDACTED] million, representing approximately 10% of the [REDACTED] from the [REDACTED], will be used as general working capital of our Group. Our Directors confirm that the [REDACTED] from the [REDACTED] and our Group’s internal resources will be sufficient to finance our business plans up to the period ending 30 September 2017.

Regardless of (i) whether our [REDACTED] Shares are priced at the high-end or low-end of the [REDACTED]; and (ii) whether the [REDACTED] is exercised in full, we will use the [REDACTED] based on the percentage disclosed above.

We estimate that the net [REDACTED] to the [REDACTED] from the [REDACTED] (after deduction of proportional [REDACTED] fees and estimated expenses payable by our [REDACTED] in relation to the [REDACTED], and assuming an [REDACTED] HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range) will be approximately HK\$[REDACTED] million. Our Company will not receive any of the [REDACTED] from the sale of the [REDACTED].

To the extent that the [REDACTED] from the [REDACTED] are not immediately required for the above purposes, it is the present intention of our Directors that such [REDACTED] will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong.

DIVIDEND POLICY

For the years ended 31 March 2014 and 2015, Techoy Construction declared and paid dividends of approximately HK\$5.0 million and HK\$9.0 million, respectively to Mr. Lam. In April 2015, our Group has also declared an interim dividend of HK\$33.5 million which was used to set off against the amounts due from a related company.

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After completion of the [REDACTED], our Directors may at their discretion declare dividends to our Shareholders subject to a number of factors, including but not limited to our results of operations, financial condition, working capital, capital requirements and other factors our Board may deem relevant. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed “[REDACTED]” and “Recent Development” in this section and the one-off dividend of HK\$33.5 million declared in April 2015, our Directors confirmed that since 31 March 2015 and up to the Latest Practicable Date, (i) there had been no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there was no material adverse change in the trading and financial 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 set out in Appendix I in this document.

RISK FACTORS

There are certain risks relating to our operations which could also harm our business, financial condition and operating results. In particular, (i) our cash flows may fluctuate due to the payment practice applied to our projects; (ii) our customers pay us by way of progress payment and require retention money, and there is no guarantee that progress payment is paid to us on time and in full, or that retention money would be fully released to us after the expiry of the maintenance period; (iii) we rely on a limited number of major customers; (iv) our Group determines the tender price based on the estimated time and costs involved in a project which may deviate from the actual time and costs involved, and inaccurate estimation may adversely affect our financial results; and (v) since our business is project-based, the fee collection and our profit margin would depend on the terms of the work contract and may not be regular. A detailed discussion of the risk factors is set forth in the section headed “Risk Factors” in this document.