

## RISK FACTORS

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

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

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

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

#### **Our revenue is mainly derived from projects which are not recurring in nature and any significant decrease in the number of our projects would affect our operations and financial results**

All of our revenue during the Track Record Period was derived from providing (i) substructure building works services; (ii) superstructure building works services; and (iii) RMAA works services, in Hong Kong, and our engagements with customers were on a project basis and non-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. After completion of the projects, our customers are not obliged to engage us again in subsequent projects. We have to undergo the tendering process for every new project.

We cannot assure you that our existing customers will award new projects to us, nor can we guarantee that we would be able to maintain our business relationships with existing customers. In the event that we are unable to attract new customers or secure new projects from our existing customers, there may be a significant decrease in our revenue. Our operations and financial results would hence be adversely affected.

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

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our revenue was approximately HK\$200.2 million, HK\$377.4 million and HK\$154.9 million, respectively. For the same periods, our profit and total comprehensive income was approximately HK\$9.4 million, HK\$18.5 million and HK\$7.9 million respectively. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our gross profit was approximately HK\$34.5 million, HK\$48.8 million and HK\$22.6 million, respectively, whereas our gross profit margin for the same periods was approximately 17.2%, 12.9% and 14.6%, respectively. For discussions on our results of operations, please refer to the section headed “Financial information” in this document.

There is an inherent risk in using such historical financial information of us to project or estimate our financial performance in the future, as they only reflect our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue and profit margin for various reasons, including but not limited to, deterioration in the market conditions of the construction main contracting industry in Hong Kong, intensification of competition among main contractors,

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aggravation in labour shortage, and other unforeseen factors such as adverse weather and geological conditions, which may delay the completion of our projects, reduce the number of projects awarded to us, and/or reduce the profit margin of our projects.

There is no assurance that we will be able to achieve the performance as we did during the Track Record Period. Investors should not solely rely on our historical financial information as an indication of our future financial or operating performance.

**We depend on our suppliers for concrete, steel and other construction materials, and any shortage or delay of supply, or deterioration in the quality, of the same could materially and adversely affect our operations, and we may not be able to identify an alternative source of stable supply with acceptable quality and price**

We rely on our suppliers for stable and timely delivery of quality concrete, steel and other construction materials. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our total purchase cost of concrete, steel and other construction materials amounted to approximately HK\$58.5 million, HK\$116.6 million and HK\$40.4 million, respectively representing approximately 35.3%, 35.5% and 30.5% of our total direct costs, respectively.

If there is any shortage of concrete, steel and other construction materials, or material delay in delivery by our suppliers, we may fail to complete our projects on time or at all. As a result, we may be required to pay liquidated damages or other penalties to our customers. We cannot guarantee that we would be able to identify suitable alternative sources of supply with acceptable quality and price. Further, even if we could do so, there can be no assurance that we would not encounter similar problems with them in the future. In such event, our business reputation and financial results may be adversely affected.

If there is any deterioration in the quality of concrete, steel and other construction materials from our suppliers, and we are unable to identify suitable alternative sources, the progress and quality of our works could be materially and adversely affected, thereby damaging our business reputation and adversely affecting our financial results.

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

As at the Latest Practicable Date, we were involved in three on-going civil proceedings and two on-going criminal proceedings against us. For details, please refer to the paragraph headed "Business — Legal proceedings and legal compliance — Legal proceedings" in this document. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our costs and expenses incurred in legal proceedings amounted to approximately HK\$Nil, HK\$0.05 million and HK\$Nil, respectively.

We may be involved in disputes with our customers, suppliers, subcontractors and other project parties from time to time in respect of various matters, including delay in completion of works, personal injury claims, complaints about the quality of completed works and damages to machinery arising from daily operation.

Further, disputes may arise between us and our customer, the employer of the project, as to the value of works properly done in a particular period, and the progress payment that we are entitled to in the relevant period. Besides, our contracts generally include variation order clauses which empower our customer or its architect to give instructions to vary the contract works which we are generally obliged to follow. The value of such variations is generally ascertained with reference to the rates and prices specified in the contract for analogous work and/or the prevailing market rate. In the event we disagree with such valuation results, contractual disputes with our customers may arise.

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

**We determine our tender price based on the estimated time and costs to be involved in a project, yet the actual time and costs incurred may deviate from our estimate due to unexpected circumstances, thereby adversely affecting our operations and financial results**

We determine our tender price based on our cost estimate plus a certain mark-up margin. For details of the factors we take into account when making our cost estimate, please refer to the paragraph headed "Business — Business model and our operation — Invitation to tender and preparation of tender" in this document. The actual time and costs incurred by us, however, may be adversely affected for various factors, including but not limited to, unexpected geological conditions in the underground of the work sites, unfavourable weather conditions, disputes with customers, suppliers, subcontractors and other project parties, difficulties in retaining necessary number of workers with requisite skills, receipt of variation orders from our customers, unexpected fluctuations in the market price of construction materials such as concrete, steel and other construction materials after the commencement of project, and other unforeseen circumstances. Significant changes in any of these or other relevant factors may lead to delay in completion or costs overrun by us, and there is no assurance that the actual time and costs incurred by us would match our initial estimates. Such delays, cost overruns or mismatch of actual time and costs with our estimates may cause our profitability to be lower than what we expected or may expose us to litigation or claims from customers in case of delays.

If we set a significant mark-up margin upon our estimated costs to cater for the unfavourable circumstances above, our tender may become uncompetitive. There is no assurance that we will always be able to price our tender competitively, and if we fail to do so, our customers may opt for our competitors, thereby resulting in a decrease in the number of projects awarded to us. This would adversely affect our operations and financial results. Meanwhile, if the mark-up margin set by us is too low, we may not be able to cover the financial impact of any unfavourable circumstances during project implementation. Our profitability in the project would hence be materially and adversely affected.

**Our contracts generally have provisional and/or re-measurement items of works and our customers may cancel certain contract works by variation orders resulting in the total contract sum of that project reduced, which would adversely affect our operations and financial results**

Our contracts generally have provisional and/or re-measurement items of works. If the provisional items of works are not required during the construction, and/or after re-measurement, the actual quantities required for the re-measurement items of works are reduced, the relevant prices included in the contract sum shall be deducted accordingly.

Further, our contracts generally have variation order clauses which empower our customer or its architect to give instructions to vary the contract works which we are generally obliged to follow. Such variation orders could be addition, modification or cancellation of the contract works. For any contract works to be cancelled, the total contract sum of that project is to be deducted according to the rates and prices of such contract works as stated in the schedule of rates.

Our Directors consider that there was no material reduction/cancellation of the contract works by our customers during the Track Record Period.

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There is no assurance that there would not be any cancellation/reduction of contract works by our customers in the future and our customers may cancel/reduce the contract works in a material manner. If our customer cancels/reduces the contract works in a material manner, resulting in a significant reduction of the total contract sum of that particular project, our operations and financial results would be adversely affected.

### **Amount recognised as revenue by us may not be the same as the value of works to be certified by our customers**

Our Group uses the “percentage-of-completion method” to determine the appropriate amount of revenue to be recognised in a given period. All interim payments are made according to the payment certificates as certified by and received from our customers.

Nevertheless, for any project which has been completed where final payment application has been made by us but not yet been certified by our customer as at the year end date, we recognise estimated revenue by reference to the amount of completed works confirmed by our in-house quantity surveyor as reflected in the payment application made.

As such, revenue recognised by us on the projects may not necessarily be the same amount eventually to be certified by our customer, who will undergo certification process after we submit our final account payment application and issue the final certificate. Disputes may arise between us and our customer in the amount certified by our customer and the amount submitted by us for payment application. There is no assurance that our recognised revenue will always be the same amount certified by our customer eventually. If our customer’s final certified amount is significantly less than the revenue recognised by our Group in a given period, we may have to make provision or impairment to our trade receivables for such temporary timing difference in recognition of final contract sum which may affect the stability of our results of operations.

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

In general, we do not receive any sums as prepayment from our customers. Nevertheless, during the commencement of our project, we have to incur various costs, including but not limited to: (i) purchase costs of concrete, steel and other construction materials; (ii) rental costs for machinery; (iii) salary payments to our workers; and (iv) costs to arrange surety bond. As such, we are subject to credit risks of our customers and our liquidity is dependent on our customers making prompt progress payments and release of retention monies due to us. For details of the mechanisms of the progress payment and retention money, please refer to the paragraph headed “Business — Business model and our operation” in this document.

As at 31 March 2015 and 30 September 2015, the trade receivables amounted to approximately HK\$38.4 million and HK\$27.2 million respectively, representing a decrease of approximately HK\$11.2 million or 29.2%, whereas the respective trade receivables also accounted for approximately 25.2% and 16.3% of the total current assets respectively. In addition, the trade receivables’ turnover days were approximately 23 days, 29 days and 39 days for each of the two years ended 31 March 2015 and the six months ended 30 September 2015, respectively. For details of the fluctuations in our trade receivables from customers and trade receivables’ turnover days, please refer to the paragraph headed “Financial Information — Trade and Other Receivables” in this document. We cannot assure you that we will be able to recover all or any part of the amounts due from our customers or we will be able to collect all or any part of retention receivable from our customers within the agreed credit terms or at all.

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Further, disputes may arise between us and our customer as to the value of work properly done in a particular period, and the progress payment that we are entitled to accordingly. There is also a possibility that we may take longer than the trade receivables’ turnover days to collect payments. This will negatively affect our cash flows and financial performance.

### **Our high gearing ratio and net current liabilities position expose us to liquidity risk**

We rely on cash generated from our business operations and bank borrowings to finance our business operation. We expect that we will continue to do so in the future. Our high level of bank borrowings and gearing ratio could materially and adversely affect our liquidity. For example, the high level of bank borrowings and high gearing ratio could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditure and other general corporate purposes;
- increase our vulnerability to adverse economic or industry condition;
- limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate;
- potentially restrict us from pursuing potential strategic business opportunities;
- limit our ability to incur additional debt; and
- increase our exposure to interest rate fluctuations.

Our gearing ratio was 602.8%, 310.0% and 192.0% as at 31 March 2014 and 2015 and 30 September 2015, respectively. Our current liabilities exceeded our current assets by HK\$5.9 million and HK\$3.5 million as at 31 March 2014 and 2015, respectively and we recorded net current assets of approximately HK\$5.2 million as at 30 September 2015. Our Group’s net current liabilities during the Track Record Period were largely due to bank borrowings classified as current liabilities as a result of inclusion of “repayable on demand” clauses in the relevant facility agreements. For details, please refer to the paragraph headed “Financial information — Liquidity and capital resources” in this document. We cannot assure you that we will not have a net current liabilities position in the future. The net current liabilities position, if recur in the future, would expose us to liquidity risk which could restrict our ability to make necessary capital expenditure or develop business opportunities, and our business, operating results, financial condition could be materially and adversely affected.

### **Our cash flows may deteriorate due to potential mismatch in time between receipt of progress payments from our customers, and payments to our subcontractors and suppliers**

As a main contractor, we will delegate specific work tasks to different subcontractors from time to time. We also need to lease machinery and purchase various construction materials including concrete, steel and other construction materials to carry out the contract works. As such, we would record significant cash outflow in the event that we take up too many substantial projects at a particular period of time.

As at 31 March 2015 and 30 September 2015, the trade payables amounted to approximately HK\$42.9 million and HK\$43.9 million respectively, representing an increase of approximately HK\$1.0 million or 2.3%, whereas the respective trade payables accounted for approximately 26.8% and 27.1% of the total current liabilities respectively. In addition, the trade payables’ turnover days were approximately 47 days, 36 days and 60 days for each of the two years ended 31 March 2015 and the

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six months ended 30 September 2015, respectively. For details of the fluctuations in our trade payables to our suppliers and the trade payables’ turnover days, please refer to the paragraph headed “Financial Information — Trade and other payables” in this document.

We rely on cash inflow from our customers to meet our payment obligations to our suppliers. Our cash inflow is dependent on prompt settlement of progress payments, and timely release of retention monies by our customers. Nevertheless, even if our customers settle such payments on time and in full, there can be no assurance that we would not experience any significant cash flow mismatch. Further, there can be no assurance that our cash flow management measures could function properly or at all. If there were any significant and substantial cash flow mismatch, we might have to raise funds by resorting to internal resources and/or banking facilities in order to meet our payment obligations in full and on time.

### **We may occasionally be required by our customers to arrange surety bonds to secure our due performance of contracts, which may adversely affect our cash flows and financial position**

We are occasionally required by our customers to arrange surety bonds at a fixed sum or in a certain percentage of the contract sum to secure due performance and compliance with the contracts. If we fail to comply with the requirements under the contracts, our customer is guaranteed the compensation for monetary loss up to the amount of the surety bonds. The aggregate value of the surety bonds issued in favour of customers as at 31 March 2014 and 2015, 30 September 2015 and 31 January 2016 was approximately HK\$34.5 million, HK\$38.3 million, HK\$35.5 million and HK\$50.6 million respectively.

The amounts paid up for the surety bonds may be locked up for a prolonged period of time, depending on contract period. Further, we cannot guarantee we will not undertake projects which have surety bonds requirements in the future, and if we fail to satisfactorily complete our works as required by our customers, the amount paid up for the surety bonds will not be released to us, which thereby may adversely affect our cash flows and financial position.

### **There is a net cash used in operating activities for the year ended 31 March 2014**

For the year ended 31 March 2014, our net cash used in operating activities was approximately HK\$5.5 million, primarily as a result of the combined effects of (i) approximately HK\$14.2 million operating cash flows before movements in working capital; (ii) the increase in net amounts due from customers of contract work of approximately HK\$4.4 million; (iii) the increase in trade and other receivables of approximately HK\$30.9 million; and (iv) the increase in pledged deposits of approximately HK\$6.0 million. This was partially offset by (i) the increase in amounts due to customers of contract works of approximately HK\$12.5 million; (ii) the increase in trade and other payables of approximately HK\$10.9 million and (iii) the income tax paid of approximately HK\$1.6 million.

There is no assurance that we will not record net cash used in operating activities in the future. Net cash used in operating activities may adversely affect our liquidity, and reduce our financial flexibility and our ability to obtain additional borrowings from bank, which in turn may adversely affect the implementation of our future plans.

### **There is no guarantee that safety measures and procedures implemented at our construction sites could prevent the occurrence of industrial accidents of all kinds, which in turn might lead to claims in respect of employees’ compensation, personal injuries, and/or property damage against us**

We have adopted certain work safety measures and procedures for our staff and subcontractors’ staff. For details, please refer to the paragraph headed “Business — Work safety” in this document. We rely on our staff to oversee the implementation of safety measures and procedures, and we cannot

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guarantee that all of the safety measures and procedures are strictly adhered to at any time, nor can we assure you that our safety measures and procedures are sufficient to prevent the occurrence of industrial accidents of all kinds. If the safety measures and procedures implemented at our construction sites are insufficient or not strictly adhered to, it may result in industrial accidents which would in turn lead to claims in respect of employees’ compensation, personal injuries, fatal accidents, and/or property damage against us. These would result in significant financial loss, damages to our reputation in the construction main contracting industry, and adversely affect our financial conditions.

### **We rely on our Board members and senior management staff, and their departure would adversely affect our operations and financial results**

The success of our business has been, and will continue to be, heavily dependent upon the continuing service of our executive Directors and senior management team. In particular, we rely on the expertise and experience of Mr. Ng, our founder, Chairman, chief executive officer and executive Director, Mr. Lui, our executive Director, and Mr. Lam, our executive Director. Mr. Ng, Mr. Lui and Mr. Lam have been key members of our management team and playing a pivotal managerial role in areas such as overseeing our corporate strategy and operational management. If one or more of our executive Directors or members of senior management is/are unable or unwilling to continue in their present positions, we might not be able to identify suitable replacements in a timely manner, or at all. Our business may hence be severely disrupted and our financial condition and operating results may be materially and adversely affected.

### **We rely on our subcontractors, who are Independent Third Parties, to complete our contract works and there is no assurance that our subcontractors will always follow strictly all of our instructions. Any delay or defects in their works would adversely affect our operations and financial results**

During the Track Record Period, we subcontracted various parts of our projects to our subcontractors in Hong Kong, who are Independent Third Parties, from time-to-time. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the total cost of engaging our subcontractors amounted to approximately HK\$82.1 million, HK\$161.2 million and HK\$70.3 million, representing approximately 49.5%, 49.0% and 53.1% of our total direct costs, respectively. For details of our arrangements with subcontractors, please refer to the paragraph headed “Business — Our suppliers — Subcontracting” in this document.

There is no assurance that our subcontractors will always follow strictly all of our instructions. If the subcontractors fail to carry out the works in accordance with our standards and specifications, we may experience delay in project completion, quality issues concerning the works done, or non-performance by subcontractors. Consequently, we may have to incur significant time and costs to carry out remedial actions, which would in turn adversely affect the profitability and reputation of our business, and result in litigation or damage claims against us.

In addition, our subcontractors may not always be readily available whenever we need to engage them. Notwithstanding our proven working relationship with our subcontractors, there is no assurance that we would be able to maintain such relationships in the future. As at the Latest Practicable Date, we had not entered into any long term service agreement with our subcontractors. As such, they are not obliged to provide services to us in future projects on similar terms and conditions as they did in the past. We may have to offer remuneration higher than we anticipated in order to engage their service in the future. Further, there is no assurance that we would be able to find suitable alternative subcontractors that meet our project needs and requirements to complete the projects, which would in turn adversely affect our operations and financial results.

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If our subcontractors violate any laws, rules or regulations in relation to health, environmental and safety matters, we may also be held liable for their violations, and be subject to claims for losses and damages if such violations result in any personal injuries and/or property damages. If any violation, whether substantial or minor in nature of any laws, rules or regulations occurred in the sites for which we are responsible, our operations and financial position would be adversely affected.

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

We rely on a stable workforce to carry out our works. In particular, we require a large number of construction workers with various skills and expertise. According to the Ipsos Report, however, Hong Kong has experienced a shortage of skilled labour and the problem of ageing workers in the construction industry resulting in the increasing trend of average daily wages of construction workers in Hong Kong 2010 to 2014.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage of labour, industrial actions, strikes or material increase in labour costs. However, in view of the current situation in the labour market, we cannot assure you that we will not experience these problems in the future, and as a result, we would have to offer better remuneration packages and other benefits to attract and retain key personnel and skilled labour. There can be no assurance that we will possess sufficient resources for such purpose. If we cannot retain or recruit sufficient number of skilled workers to handle our projects in a timely manner, we may experience delay in project completion and our ability to handle future projects would in turn be significantly reduced.

**We may be unable to attract and retain employees with the requisite skills, expertise and experience or obtain the requisite machinery for our operation at a reasonable costs in a timely manner, which would adversely affect our operations, business growth and financial results**

As a main contractor, we rely on the skills, expertise and experience of our employees to provide quality works services to our customers. Our employees may terminate their employment with us prematurely and we may not be able to retain them. Experienced and skilled workers in the construction main contracting industry are highly sought after, and competition for talent is intense. Our direct labour cost amounted to approximately HK\$3.3 million, HK\$12.8 million and HK\$6.0 million for each of the two years ended 31 March 2015 and the six months ended 30 September 2015, respectively representing approximately 2.0%, 3.9% and 4.6% of our total direct costs respectively for the same periods.

If we experience any failure to attract and retain competent personnel or any material increase in direct labour costs as a result of a shortage in the supply of skilled labour, our competitiveness and business would be damaged, thereby adversely affecting our financial condition and operating results. Further, if we fail to identify suitable replacements for our departed staff, our business and operation could be adversely affected and our future growth and expansions may be inhibited.

Further, there can be no assurance that we would be able to acquire or rent sufficient number of machinery, at reasonable costs and in a timely manner, nor can we guarantee that they would function properly at all material times and they would not become obsolete as a result of technological developments in construction main contracting industry. We also cannot guarantee that we would be able to arrange immediate repair and/or replacement for our impaired machinery in timely and cost-effective manner.

As a result, we may not be able to expand our capacity successfully in order to cope with the increasing demands expected from future projects. If we fail to do so, our ability to handle existing projects or compete for new projects may be significantly reduced, which would in turn affect our business, financial conditions and operating results.



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### **Expiry, withdrawal, revocation, downgrading and/or failure to renew any of our various registrations and certifications would adversely affect our operations and financial results**

As a main contractor, we possess and rely on our various licenses and qualifications to operate our business in Hong Kong. For details of our licenses and qualifications, and their respective applicability in our business, please refer to the paragraph headed “Business — Major qualifications and licenses” in this document.

These registrations and/or licenses may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant Government authorities. There can be no assurance that we would be able to renew the registrations and/or licenses in a timely manner or at all. If we fail to do so, we may be required to suspend our operations, which would have a material adverse effect on our business and operating results.

Further, the relevant Government authorities may remove us from their lists or take other disciplinary actions against us such as suspension, downgrading to probationary status, or demotion to a lower group in respect of all or any work category for various reasons, including but not limited to sub-standard works and failure to implement adequate safety measures etc. The occurrence of any of the above scenarios would damage our reputation in the construction industry, limit our ability to compete for new projects and impair our exposure to our customers, which in turn would have an adverse effect on our growth and operations.

### **We rely on our information management systems, the breakdown or disruption of which would adversely affect our operations and financial results**

We rely on our information management systems to oversee our project progress, manage our working schedule, allocate our resources and review our performance, which enables us to review our capacity, trace our project information and assess our project progress in a timely and systematic manner. Any long term breakdown or failure of our information management systems, whether as a result of human error or natural disaster, may materially and adversely affect our operations and financial results.

### **There is no guarantee that we would not be subject to any claims in relation to defects of our works, which may result in further costs to make good the defects, and/or deduction of the retention monies to be released and/or claims from our customers against us**

As a main contractor, we may be subject to claims in relation to defects of our works. In general, our customers require us to provide a defect liability period, during which we will remain responsible for remedying any defects or imperfections discovered in relation to our works done. Such remedial actions may range from maintenance to minor repair works. In the event that substantive remedial actions were required, we might have to incur significant costs and time or be subject to claims from our customers against us. If we fail to make good the defects as required, our customers may not only reduce or forfeit the retention monies withheld from us, but they may also claim damages from us.

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

Our contracts generally set out the due date of the contract works. If we fail to complete the contract works by the due date, we may be required to pay liquidated damages to our customers pursuant to the contracts, unless they agree to grant us time extension to complete the remaining works.

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There may be delay or disruption to our works due to unforeseen circumstances that are beyond our expectation or control, including but not limited to, unexpected geological conditions in the underground of the work sites, unfavourable weather conditions, variation orders and/or other construction risks such as work injuries and disputes with customers, suppliers, subcontractors and other project parties.

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

### **We have records of non-compliance with certain Hong Kong regulatory requirements which could lead to the imposition of fines**

There have been a number of instances of non-compliance with certain Hong Kong regulatory requirements on various occasions by our Group. These include, among others: (i) the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong); (ii) the Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (Chapter 360A of the Laws of Hong Kong) and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (Chapter 360A of the Laws of Hong Kong); and (iii) the Companies Ordinance and Predecessor Companies Ordinance. For details, please refer to the paragraph headed “Business — Legal proceedings and legal compliance — Legal compliance” in this document.

There is no assurance that the relevant authorities would not take any enforcement action against our Group and our Directors in relation to these non-compliance matters. In the event that such enforcement action is taken, our reputation, cash flow and results of operations may be adversely affected.

### **Our insurance may not cover all potential loss and claims, and any uninsured losses incurred could be substantial and therefore adversely affect our operations and financial results**

Our insurance may not fully cover all potential loss and claims arising from our operation. Typical claims such as accidents and personal injuries suffered by workers retained by us and our subcontractors are generally covered by the insurance policies maintained by us. Our machinery deployed in the work sites are also covered by our insurance policy. For details, please refer to the paragraph headed “Business — Insurance” in this document.

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

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

With respect to loss and claims which are covered by our insurance policies, it may be a difficult and lengthy process to recover such losses from insurers. In addition, we may not be able to recover the full amount of such loss from the insurers. There can be no assurance that our policies would be sufficient to cover all potential loss, regardless of the cause, or that we can recover such losses from the insurers.

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### **Our Group had tax liabilities and errors in our subsidiary’s financial statements for the years prior to and the year ended 31 March 2015**

In preparation of the financial information of our Group for the Track Record Period, the management of our Company had identified errors, being mainly accounting errors in relation to the recognition of the contract revenue and the corresponding cost, in the statutory financial statements of a subsidiary of our Company for the years prior to and the year ended 31 March 2015, where certain revenue and the corresponding cost recognised in the financial year ended 31 March 2015 should be recognised in the financial year ended 31 March 2014. Relevant adjustments have been made to the revenue and cost of services of our Group for the year ended 31 March 2014, and relevant adjustments shall be made to the income tax expenses. As a result of the foregoing and taking into account of materiality, the tax undercharged for the year ended 31 March 2014 of approximately HK\$[230,638] has been restated in the financial statements of profit or loss for the year ended 31 March 2014. Such amount of tax undercharged is subject to final assessment of the IRD.

Based on the tax opinion issued by our tax adviser, Edwin Yeung & Company (CPA) Limited, the potential tax penalty is expected to be approximately HK\$[23,000], being [10]% of the aggregated tax undercharged, plus interest. For further details, please refer to the paragraph headed “Financial Information — Other payables, accruals and deposits received — Tax liabilities” in this document.

There is no assurance that the relevant authorities would not take any enforcement action against the relevant subsidiary of our Company in relation to the tax errors. In the event that such enforcement action is taken, and the amount of tax undercharged after the final assessment of the IRD and tax penalty imposed exceeds substantially than what we expect, our reputation and cash flow may be adversely affected.

### **Our [REDACTED] expenses, which are non-recurring in nature would significantly adversely affect our financial performance and results of operation**

The Group expects that the total [REDACTED] expenses, which is non-recurring in nature, will amount to approximately HK\$[REDACTED] of which the Group is expected to bear approximately HK\$[REDACTED] and approximately HK\$[REDACTED] will be borne by [REDACTED]. The Group did not record any [REDACTED] expenses during the Track Record Period. The Group expects to recognise approximately HK\$[REDACTED] in the combined statements of comprehensive income for the year ending 31 March 2016; while approximately HK\$[REDACTED] to be directly attributable to the issue of new Shares and accounted for as a deduction from equity upon successful [REDACTED] under the relevant accounting standards. Accordingly, the financial results of the Group for the year ending 31 March 2016 are expected to be affected by the estimated expenses in relation to the [REDACTED]. Such [REDACTED] expenses is a current estimate for reference only and the final amount to be charged to the profit and loss account of the Group for the year ending 31 March 2016 and the amount to be deducted from the Group’s capital is subject to change.

Whether or not the [REDACTED] eventually occurs, a major portion of the [REDACTED] expenses will have been incurred and recognised as expenses, which will reduce our net profit and therefore negatively affect our future financial performance. As a result, our Board wishes to inform the Shareholders and potential investors that our Group’s business, financial performance, results of operations and prospect would be significantly and adversely affected by the estimated expenses in relation to the [REDACTED].

### **We may face increasing rental expenses**

As at the Latest Practicable Date, we had seven leased properties. Our leased properties are leased from landlords who are Independent Third Parties. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our operating lease rental on land and buildings amounted to approximately HK\$221,000, HK\$355,000, and HK\$163,000, representing approximately 0.1%, 0.09%,

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0.1% respectively of our total revenue for the same periods. Our operating lease rental on land and buildings for the year ended 31 March 2015 increased by approximately 60.6% or approximately HK\$134,000 as compared to that for the year ended 31 March 2014.

Our operating lease rental on land and buildings represented lease rental paid for our Group’s offices, warehouse and open storage for our machinery and equipment, and staff quarters for our construction site workers.

Our landlords may increase the rent in future upon renewal of the current leases. Further, if our number of machinery increases, we may need to lease more warehouses and open storage. If our number of projects increases, we may need to retain more staff and so we may need to lease more offices and staff quarters. As such, we may face increasing rental expenses in future.

### **We may require additional capital in the future, which may not be available on favourable terms or at all**

We may require additional funding due to changes in business conditions, expansion in our existing fleet of machinery or potential investments or acquisitions that we may pursue. To meet our capital needs, we may sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution of our Shareholder’s holdings in our Company. The incurrence of further indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favourable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

### **Our Company is a holding company and therefore, our Company’s ability to pay dividends or make any other distributions depends entirely on distributions received from its subsidiaries, and if there is any restriction against our subsidiaries to make distributions, we may not be able to pay any dividend**

Our Company is a holding company and our operating results and financial position are entirely dependent on the performance of the members of our Group. Our Company’s ability to pay dividends will depend on the level of distributions, if any, received from its subsidiaries. The ability of our subsidiaries to make distributions to us may, from time to time, be restricted as a result of several factors, including foreign exchange limitations (in future if applicable), the requirements of applicable laws, and regulatory, fiscal or other restrictions of the countries in which our Group has operations (in future if applicable).

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

The declaration, payment and amount of any future dividends are subject to the discretion of our Board depending on, among other things, our Group’s earnings, financial condition and cash requirements and the provisions governing the declaration and distribution as contained in the Articles of Association, applicable laws and other relevant factors. For details of our dividend policy, please refer to the paragraph headed “Financial information — Dividend policy” in this document. We cannot assure investors when or whether we will pay dividends in the future.

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

#### **Any deterioration in the prevailing market conditions in the construction main contracting industry may adversely affect our performance and financial condition**

The number of projects awarded to us is highly dependent on the prevailing market conditions in the construction main contracting industry in Hong Kong. The demand for our services is closely associated with the level of construction activities, especially those related to infrastructure and property development. According to the Ipsos Report, the major growth in the construction industry in Hong Kong in recent years is driven by the increase demand for office buildings, retail spaces, residential buildings and public infrastructures, as well as Government's fiscal expenditure on infrastructure and the provision of land for residential use in Hong Kong. There is no assurance that the Government would maintain its spending on infrastructure at the current level. If the Government reduces its spending on infrastructure works or reverses its housing policy, it may have a direct adverse impact on the market conditions of the construction industry in Hong Kong, which would likely result in drop in the number of projects awarded to us and reduction in contract sum, thereby adversely affecting our performance and financial condition.

In addition, the market conditions of the construction industry in Hong Kong are influenced by various factors, including but not limited to: (i) shortage of skilled labour; (ii) economic fluctuations in Hong Kong; (iii) availability of new projects in the private sector; and (iv) general conditions and development of Hong Kong economy. If there is any significant deterioration in any of these factors, our operating results and financial conditions could be adversely affected.

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

The industry we operate is highly competitive, and there are a significant number of industry players that provide works services similar to ours. As of October 2015, there were about 694 registered general building contractors registered at the Buildings Department according to the Ipsos Report. Some of our competitors may have certain advantages, including stronger brand names, greater access to capital, longer operating history, longer and more established relationship with property developer, and greater marketing and other forms of resources. Further, new participants may enter the industry as they wish provided that they possess all the various licences and qualifications required.

In addition, the construction main contracting industry in Hong Kong has a relatively fragmented competitive landscape. The top five substructure works main contractors accounted for approximately 48.3% of the substructure works industry in Hong Kong in 2014, the top five superstructure works main contractors accounted for approximately 23.0% of the superstructure works industry in Hong Kong in 2014 and the top five RMAA works main contractors accounted for approximately 8.2% of the RMAA works industry in Hong Kong in 2014, which means that no few main contractors could dominate the construction main contracting industry. If the competition among main contractors intensifies, we may be under pressure to reduce our tender price, which would have an adverse impact on our project profitability and operating results. We cannot guarantee that we can effectively cope with the enhanced competition in the future or that we may maintain our leading position in the industry.

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

Many aspects of our business operations are governed by various laws and regulations, and Government policies. The requirements in respect of the granting and/or renewal of various licenses and qualifications in the construction main contracting industry may change from time to time, and we may not be able to respond to such changes in a timely manner. Such changes may also increase our costs and burden in complying with them, which may materially and adversely affect our business, financial

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condition and results of operations. For example, if there are any change to and/or imposition of the requirements for qualification in the construction main contracting industry in relation to on environment protection and labour safety and we fail to meet the new requirements in a timely manner or at all, our business operations will be materially and adversely affected.

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

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

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

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

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

### **RISKS RELATING TO THE [REDACTED]**

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

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

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

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

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

Since there will be a gap of several days between pricing and trading of our [REDACTED], holders of our [REDACTED] are subject to the risk that the price of our [REDACTED] could fall during the period before trading of our [REDACTED] begins. The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence trading on the Stock Exchange until the [REDACTED]. As a result, investors may not be able to sell or otherwise deal in our Shares during the period between the [REDACTED] and the [REDACTED].

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

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

The [REDACTED] is higher than the net tangible assets value per Share. Therefore, investors of our [REDACTED] will experience an immediate dilution in the [REDACTED] per Share based on the [REDACTED] at HK\$[REDACTED] per [REDACTED] (being the mid-point of the proposed [REDACTED] range).

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

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

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

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

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

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

### RISKS RELATING TO STATEMENTS IN THIS DOCUMENT

**Investors should read the entire document and should not rely on any information contained in press articles or other media coverage regarding us and the [REDACTED]**

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there may be press and media coverage regarding the [REDACTED] and us. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and our investors should not rely on such information.

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

Certain facts, forecast and other statistics in this document have been derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

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

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