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Application Proof of



**Ching Lee Holdings Limited**

**正利控股有限公司**

(the “Company”)

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

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**Ching Lee Holdings Limited**  
**正利控股有限公司**

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

**[REDACTED]**

**Number of [REDACTED] : [REDACTED] Shares comprising  
[REDACTED] New Shares and  
[REDACTED] Sale Shares (subject to the  
[REDACTED])**

**[REDACTED] : Not more than HK\$[REDACTED] per  
[REDACTED] Share and expected to be not  
less than HK\$[REDACTED] per  
[REDACTED] 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)**

**Nominal value : HK\$0.01 per Share  
Stock code : [REDACTED]**

**Sponsor**

**SUNWAH KINGSWAY**  
**新華滙富**

**Kingsway Capital Limited**

**[REDACTED] and [REDACTED]**

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The [REDACTED] is expected to be determined by agreement between [REDACTED] and our Company (for itself and on behalf of [REDACTED]) on the [REDACTED]. The [REDACTED] is expected to be not more than HK\$[REDACTED] per [REDACTED] Share and not less than HK\$[REDACTED] per [REDACTED] Share. If, for any reason, [REDACTED] and our Company (for itself and on behalf of [REDACTED]) are unable to reach an agreement on the [REDACTED] by 9:00 p.m. (Hong Kong time) on the [REDACTED], the [REDACTED] will not proceed and will lapse. In the case of such event, a notice will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.chingleeholdings.com](http://www.chingleeholdings.com). The [REDACTED] will fall within the [REDACTED] range stated in this document unless otherwise announced, as explained below.

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

Prospective investors of the [REDACTED] should note that [REDACTED], may in its discretion, terminate the [REDACTED] by notice in writing to be given by [REDACTED] upon the occurrence of any of the events set forth in the section headed “Underwriting — Underwriting arrangements, commissions and expenses — Grounds for termination” in this document at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED]. Should [REDACTED] terminate its obligations under the [REDACTED] in accordance with its terms, the [REDACTED], will not proceed and will lapse. It is important that prospective investors refer to that section for further details.

**[REDACTED]**

## CHARACTERISTICS OF GEM

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*Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.*

*The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.*

**EXPECTED TIMETABLE**

**[REDACTED]**

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### IMPORTANT NOTICE TO INVESTORS

*This document is issued by our Company solely in connection with the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the [REDACTED] offered by this document pursuant to the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances.*

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## SUMMARY

### BUSINESS OVERVIEW

We are a main contractor in Hong Kong principally engaged in providing (i) substructure building works services; (ii) superstructure building works services; and (iii) repair, maintenance, alteration and addition (“**RMAA**”) works services. The following table sets forth the breakdown of our revenue by segment during the Track Record Period:

	Year ended 31 March				Six months ended	
	2014		2015		30 September 2015	
	<i>Revenue</i> <i>(HK\$'000)</i>	<i>% of total</i> <i>revenue</i>	<i>Revenue</i> <i>(HK\$'000)</i>	<i>% of total</i> <i>revenue</i>	<i>Revenue</i> <i>(HK\$'000)</i>	<i>% of total</i> <i>revenue</i>
Substructure building works services	75,280	37.6	131,520	34.9	36,913	23.8
Superstructure building works services	31,597	15.8	221,009	58.6	115,687	74.7
RMAA works services	<u>93,306</u>	<u>46.6</u>	<u>24,827</u>	<u>6.5</u>	<u>2,309</u>	<u>1.5</u>
Total:	<u>200,183</u>	<u>100.0</u>	<u>377,356</u>	<u>100.0</u>	<u>154,909</u>	<u>100.0</u>

All our projects during the Track Record Period and up to the Latest Practicable Date were located in Hong Kong. During the Track Record Period, we undertook projects in both public and private sectors. The following table sets forth the breakdown of our revenue by public and private sectors during the Track Record Period:

	Year ended 31 March				Six months ended	
	2014		2015		30 September 2015	
	<i>Revenue</i> <i>(HK\$'000)</i>	<i>% of total</i> <i>revenue</i>	<i>Revenue</i> <i>(HK\$'000)</i>	<i>% of total</i> <i>revenue</i>	<i>Revenue</i> <i>(HK\$'000)</i>	<i>% of total</i> <i>revenue</i>
Public sectors	10,104	5.0	955	0.3	—	0.0
Private sectors	<u>190,079</u>	<u>95.0</u>	<u>376,401</u>	<u>99.7</u>	<u>154,909</u>	<u>100</u>
Total:	<u>200,183</u>	<u>100.0</u>	<u>377,356</u>	<u>100.0</u>	<u>154,909</u>	<u>100.0</u>

We were founded in 1998 and have been operating for over 17 years. We acted as the main contractor in all our projects during the Track Record Period and up to the Latest Practicable Date and delegated works to our subcontractors under supervision of and management by our project team. Our role as a main contractor generally includes overall project management and supervision of works conducted by our subcontractors to ensure their conformity to contractual specification and that projects are completed on time and within budget.

### Customers

During the Track Record Period, our top five customers include Link Asset Management Limited (previously known as The Link Management Limited) (“**LAML**”), church and property developers. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our top five customers were Independent Third Parties, and total revenue attributable to them amounted to approximately HK\$172.1 million, HK\$284.6 million and HK\$129.1 million, representing approximately 86.0%, 75.4% and 83.3% of our total revenue, respectively. During the same period, total revenue attributable to our largest customer amounted to approximately HK\$81.6 million, HK\$76.8 million and HK\$36.7 million, representing approximately 40.8%, 20.4% and 23.7% of our total revenue, respectively.

## SUMMARY

### Suppliers

During the Track Record Period, besides our subcontractors, our top five suppliers also include construction materials suppliers. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our top five suppliers were Independent Third Parties, and our total purchase attributable to them amounted to approximately HK\$27.3 million, HK\$47.9 million and HK\$12.7 million, representing approximately 46.6%, 41.1% and 31.6% of our total purchase, respectively. During the same period, our total purchase attributable to our largest supplier amounted to approximately HK\$11.3 million, HK\$15.7 million and HK\$4.2 million, representing approximately 19.2%, 13.4% and 10.3% of our total purchase, respectively.

### Subcontractors

During the Track Record Period, we engaged approximately 90 subcontractors. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the total cost in 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 the same periods, the cost in engaging our top five subcontractors amounted to approximately HK\$45.3 million, HK\$74.8 million and HK\$34.1 million respectively, representing approximately 55.2%, 46.4% and 48.6% of our total cost in engaging our subcontractors respectively. For the same periods, the cost in engaging our largest subcontractor amounted to approximately HK\$12.6 million, HK\$30.9 million and HK\$14.8 million respectively, representing approximately 15.3%, 19.2% and 21.0% of our total cost in engaging our subcontractors respectively.

### Our projects

During the Track Record Period and up to the Latest Practicable Date, we completed 14 projects. As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$519.8 million. These on-going projects are expected to be completed by the year ending 31 March 2017.

### Tender success rates

Based on our internal records, for each of the two years ended 31 March 2015 and the six months ended 30 September 2015, we submitted 51, 41 and 27 tenders or quotations to our customers (excluding quotations in relation to variation orders and supplemental orders), respectively and had been awarded 9, 4 and 6 projects. As such, the success rates for the same periods were approximately 17.6%, 9.8% and 22.2% respectively.

## BUSINESS MODEL

During the Track Record Period, our projects were mainly awarded by way of tendering.

According to the Ipsos Report, the tender process for construction projects is standardised. When the employers intend to engage a main contractor for a construction project, they would issue invitation to tender to numerous candidate main contractors. Private developers generally have their own preference list of contractors for tender invitation. After receiving the invitation to tender, the candidate main contractors would prepare and submit their tenders by the deadline. All these tender submissions would be evaluated and vetted by the employers and they would conduct interviews and negotiations with candidate main contractors before awarding the tender to the appropriate main contractor. After the main contractor has been awarded with the tender, they would subcontract various parts of the construction works to the subcontractors. Similarly, candidate subcontractors would submit tenders or quotations by the deadline which would be evaluated by the main contractor, before awarding the subcontracts to the appropriate subcontractors.



## SUMMARY

### **Invitation to tender and preparation of tender**

In general, the invitation to tender is by way of letter. If we accept the invitation, tender package is delivered to us consisting of conditions of tender, specifications, schedule of rates and drawings. The schedule of rates is to itemise the works and quantities. Our tendering department is responsible to prepare the tender submission.

We adopt a cost-plus pricing model for setting our tender price. We estimate the cost by considering direct labour cost, subcontracting cost, construction material cost and insurance cost. During the preparation of tender submission, we may obtain preliminary quotations from our construction materials suppliers, subcontractors and insurers to facilitate our estimation. We would also conduct site visit(s) to understand the site conditions and constraints.

A preliminary assessed project cost would be provided to our executive Directors to consider. Our executive Directors would also determine the mark-up margin. In determining the mark-up margin, we target to strike a balance between making a competitive tender price against our competitors and maintaining a reasonable gross profit margin of the project, and would take into account various factors including pricing trends of labour and material cost, relationship with our customers and the professional parties already on board in the project and risk factors. Our tendering department would then fill in and revise the schedule of rates and prepare tender submission documents.

Depending on the complexity and scale of the project, it generally takes around two to five weeks for us to prepare and make a tender submission. Our executive Directors must approve and sign the tender submission before it is made.

### **Tender selection**

After tender submission, we would attend interview with our customer, respond to our customer's queries and/or negotiate with our customer about the price and/or contract terms, which are responsible by our executive Directors. If we are selected by our customer to "win" the contract, a letter of acceptance would be issued to us. The tender selection process generally takes around one to two months.

### **Project implementation**

Once we are awarded with a project, we will form a project team which is responsible to handle the project assigned to it to ensure the works are in conformity to the contractual specifications and the project is completed on time and within budget. It is also responsible for perusing the specifications set out in the contract and if necessary, apply to the relevant Government departments to obtain the requisite permits and approvals in relation to air pollution, waste disposal, noise pollution and others pursuant to environmental protection requirements before commencement of the construction works.

We would also confirm our engagement with our subcontractors after we are awarded with a project.

The construction materials that we purchased are mainly concrete and steel. We procure the same from local distributors in Hong Kong for our subcontractors to carry out the works. We do not keep any construction materials as inventory because they are procured on a project-by-project basis in accordance with the specifications.

For those subcontractors that we need to provide them machineries, we either provide them our own machineries or machineries leased from our suppliers (as agreed and included in the subcontract price). During the Track Record Period, the machineries we leased from our suppliers include generators, cranes and air compressors. As at 30 September 2015, we had 19 sets of machinery and generally six types of machinery, namely crane, excavator, grout pump, drawler drill, generator and air compressor.

## SUMMARY

We are also required to take out the employees' compensation insurance, contractor's all risks and third party liability insurance, insurance for the construction plant and equipment brought onto the site for the contract.

### **Progress payment and certification**

Among 14 projects completed during the Track Record Period and up to the Latest Practicable Date and 12 on-going projects as at the Latest Practicable Date, save and except one project, we did not receive any sums as prepayment from our customers.

We receive progress payment from our customers pursuant to the contract. In general, for every one month, we prepare a statement setting out our estimate of the value of the works completed in the preceding month and submit the statement together with the payment application to our customers. Upon receiving such statement with our payment application, the architect and/or quantity surveyor of our customer shall assess our estimation and issue an interim certificate certifying the works completed in the preceding month. In general, it takes around 14 days from the date of our payment application to issue the interim certificate. Our customer will then make payment based on the certified amount less any retention money. Payments will normally be made by our customers within 30 days from the date of the issuance of the interim certificate.

The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount until the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.

Payment is usually made by way of cheque or bank transfer in Hong Kong dollars.

The above mechanism is also similar to our progress payment to our subcontractors. On or before the fifteenth (15th) day of each calendar month, our subcontractors shall submit payment application to us, which shall contain the quantity of completed works certified by our foreman together with receipts and/or records showing due payment of salary to their employees and the employees of their sub-subcontractors (if any).

Upon receiving such payment application, we shall assess and certify the amount to be paid and make payment based on the certified amount less any retention money on the thirtieth (30th) day of the same calendar month.

### **Re-measurement and variation order**

In general, our contract sum is a fixed price lump sum but in some projects, the relevant schedule of rates contains provisional items and we may also have variation orders from our customers.

### **Duration of our projects**

During the Track Record Period, the average duration of our substructure building works projects, superstructure building works projects, and RMAA works projects completed was about 18 months, 13 months and 9 months, respectively.

### **Defect liability period and final payment**

We are required to make good any defects at our own cost within the defect liability period, which is generally 12 months, after the practical completion. After we have made good the defect to our customer's satisfaction, the residue of the retention money being retained will be released to us. In general, we impose a back-to-back defect liability period on our subcontractors.

## SUMMARY

In general, within three months after the expiry of the defect liability period and making good the defects, our customer will issue the final certificate to state the sum of all amounts previously certified and the contract sum as adjusted pursuant to the contract. Such difference shall be settled by our customer or us, as the case may be, within 14 days from the final certificate date.

### Surety bond

We are generally required to at our own cost obtain the guarantee of a licensed bank or insurance company in Hong Kong to be jointly and severally bound with us to our customer in a specified sum for the due performance of the contract under the terms of a bond in a specified format. The surety bond is generally released upon the practical completion. The surety bonds provided by our Group during the Track Record Period are generally in an amount not exceeding 4% of the contract sum.

### Major qualifications and licenses

As at the Latest Practicable Date, we had obtained the following licenses and qualifications which are material for us to operate our business in Hong Kong:

Issuing authorities	Relevant list/category	Qualification/License	Holder	Validity period
Buildings Department	Foundation Works	Registered Specialist Contractor	Ching Lee Engineering Limited	18 December 2016
Buildings Department	Site Formation Works	Registered Specialist Contractor	Ching Lee Engineering Limited	18 December 2016
Buildings Department	N/A	Registered General Building Contractor	Ching Lee Engineering Limited	24 January 2017
Works Branch Development Bureau	Repair and Restoration of Historic Buildings	Approved Suppliers and Materials and Specialist Contractors for Public Works	Ching Lee Engineering Limited	Effective from 22 April 2009 <sup>(Note)</sup>

*Note:* Not subject to any periodic renewal conditions.

### Employees and work injuries

As at the Latest Practicable Date, we had approximately 70 full-time employees who were directly employed by us in Hong Kong. Our labour cost, including wages, salaries and other employee's benefits, 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 which amounted to approximately 2.0%, 3.9% and 4.6% of our total direct costs respectively for the same periods.

We also maintain an internal record of our work injuries. For each of the calendar years 2013 and 2014, and the period from 1 January 2015 to 30 September 2015 (both days inclusive), we recorded two, nil and nil work injuries of our employees, and three, seven and seven work injuries of our subcontractors' employees, respectively.

## SUMMARY

### Property

As at the Latest Practicable Date, our Group held four properties in Hong Kong. As part of the Reorganisation, we will dispose one property to Mr. Ng, acquire one property from Mr. Ng and acquire three properties from Strong Knight, all of which will be completed before [REDACTED]. As such, we will own in total seven properties in Hong Kong upon [REDACTED], all of which are for our own use and were subject to mortgage. We had seven leased properties. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our property rental and related expenses amounted to approximately HK\$221,000, HK\$355,000, and HK\$163,000, representing approximately 0.1%, 0.09%, 0.1% respectively of our total revenue for the same periods.

### OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths are as follows:

- We are an established main contractor in Hong Kong.
- We provide extensive services.
- We have established relationships with our top five customers.
- We have established relationships with our top five suppliers.
- We have an experienced and dedicated management team.

### BUSINESS STRATEGIES

Our business objective is to achieve sustainable growth in our business in Hong Kong by consolidating and expanding our works capacity in Hong Kong.

### FUTURE PLANS AND USE OF PROCEEDS

On the basis that the [REDACTED] is HK\$[REDACTED] (being the mid-point of the indicative range of the [REDACTED]), our Directors estimate that the net proceeds to be received by us from the [REDACTED] (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the New Shares and the relevant portion of estimated [REDACTED] expenses in connection with the [REDACTED] to be borne by our Group) will be approximately HK\$[REDACTED]. Our Directors presently intend that the net proceeds payable to us from the [REDACTED] will be applied for the period from the Latest Practicable Date to 31 March 2018 as follows:

Use	Approximate percentage or amount of net proceeds to be applied
To reserve more capital to satisfy our potential customers' requirement for surety bond	[REDACTED]% of HK\$[REDACTED]
To expand our workforce, and arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses	[REDACTED]% of HK\$[REDACTED]
To acquire machinery	[REDACTED]% of HK\$[REDACTED]
To reduce our gearing ratio	[REDACTED]% of HK\$[REDACTED]

## SUMMARY

We estimate that the [REDACTED] will receive net proceeds of approximately HK\$[REDACTED] million at the [REDACTED] of HK\$[REDACTED] (being the mid-point of the indicative range of the [REDACTED]), after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the Sale Shares and the relevant portion of estimated [REDACTED] expenses to be borne by [REDACTED]. We will not receive any of the net proceeds of the [REDACTED] from the sale of the Sale Shares by [REDACTED].

If the [REDACTED] is exercised in full, assuming a [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED], we estimate the net proceeds to be received by us from the [REDACTED] (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the New Shares and Shares to be issued pursuant to the exercise of the [REDACTED] and the relevant portion of estimated [REDACTED] expenses in connection with the [REDACTED] to be borne by our Group) would be increased to approximately HK\$[REDACTED]. We currently intend to apply such additional net proceeds to the above proposed usage items, save and except for the reduction of our gearing ratio, on a pro-rata basis. For further details on our future plans and use of proceeds, please refer to the section headed “Future plans and use of proceeds” in this document.

### SELECTED KEY OPERATIONAL AND FINANCIAL DATA

	Year ended 31 March		Six months ended 30 September	
	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)			
Revenue	200,183	377,356	154,308	154,909
Cost of revenue	<u>(165,674)</u>	<u>(328,560)</u>	<u>(131,823)</u>	<u>(132,307)</u>
Gross Profit	34,509	48,796	22,485	22,602
Profit before income tax	11,354	22,813	11,566	9,598
Profit and total comprehensive income for the year/period attributable to the owners of the Company	<u>9,420</u>	<u>18,478</u>	<u>9,546</u>	<u>7,861</u>
	As at 31 March		As at 30 September	
	2014	2015	2015	
	HK\$'000	HK\$'000	HK\$'000	
Non-current assets	16,126	27,195	24,938	
Current assets	100,676	156,751	166,861	
Current liabilities	106,534	160,252	161,686	
Net current assets/(liabilities)	(5,858)	(3,501)	5,175	
Non-current liabilities	3,091	3,589	2,147	
Net Assets	7,177	20,105	27,966	

## SUMMARY

	<b>Year ended</b>		<b>Six months ended</b>	
	<b>31 March</b>		<b>30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(5,453)	34,029	10,230	20,649
Net cash used in investing activities	(13,641)	(44,029)	(11,334)	(3,386)
Net cash (used in)/generated from financing activities	8,156	16,108	8,296	(9,557)
Net (decrease)/increase in cash and cash equivalents	(10,938)	6,108	7,192	7,706
Cash and cash equivalents at beginning of year/period	10,704	(234)	(234)	5,874
Cash and cash equivalents at end of year/period	(234)	5,874	6,958	13,580

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

### KEY FINANCIAL RATIOS

<b>Selected Ratios</b>	<b>Year ended 31 March</b>		<b>Six months ended</b>
	<b>2014</b>	<b>2015</b>	<b>30 September 2015</b>
Gross profit margin	17.2%	12.9%	14.6%
Net profit margin	4.7%	4.9%	5.1%
Gearing ratio	602.8%	310.0%	192.0%
Current ratio	0.9	1.0	1.0
Return on equity	88.0%	135.5%	32.7%
Return on assets	9.8%	12.3%	4.2%

Please refer to the paragraph headed “Analysis of selected financial ratio” under the section headed “Financial information” in this document for further details.

### 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 (i) substructure building works services; (ii) superstructure building works services; and (iii) repair, maintenance, alteration and addition (“RMAA”) works services. The aggregate contract value of these on-going projects are as follow:

- four substructure building works services of contract value of approximately HK\$211.9 million in aggregate;
- six superstructure building works services of contract value of approximately HK\$648.4 million in aggregate; and
- two RMAA works services of aggregate contract value of approximately HK\$79.2 million.

As at the Latest Practicable Date, the outstanding contract sums to be completed for each category were:

- substructure building works services of approximately HK\$89.5 million;
- superstructure building works services of approximately HK\$356.4 million; and
- RMAA works services of approximately HK\$73.9 million.

## SUMMARY

As at the Latest Practicable Date, all our on-going projects were projects in private sector. Please refer to the section headed "Business — Our projects" for further details of our on-going projects as at the Latest Practicable Date. Our business model and cost structure remained unchanged since 30 September 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.

Save as the [REDACTED] expenses, 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] expenses as discussed in the paragraph headed "[REDACTED] expenses" below in this section.

The net current assets of our Group as at 31 October 2015 were approximately HK\$6.3 million. As at the Latest Practicable Date, approximately 99.6% of the trade receivables as at 31 March 2015 had been subsequently settled, and 93.7% of the trade payables as at 31 March 2015 had been subsequently settled.

### [REDACTED] EXPENSES

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 recognize 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.

### STATISTICS OF THE [REDACTED]

Number of [REDACTED]:	[REDACTED] Shares (subject to the [REDACTED]) (comprising [REDACTED] New Shares to be offered by our Company and [REDACTED] Sale Shares to be offered by [REDACTED])	
[REDACTED] structure:	[REDACTED]% of the enlarged issued share capital of the Company	
[REDACTED]	Up to [REDACTED]% of the [REDACTED] initially available under the [REDACTED]	
[REDACTED]:	Not more than HK\$[REDACTED] per [REDACTED] Share and expected to be not less than HK\$[REDACTED] per [REDACTED] Share	
Market capitalization of the Shares:	Based on a [REDACTED] of HK\$[REDACTED] per Share	Based on a [REDACTED] of HK\$[REDACTED] per Share
	HK\$[REDACTED]	HK\$[REDACTED]

### OUR SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the [REDACTED] without taking into account of any Shares which may be allotted and issued upon the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme, our Company will be owned as to [REDACTED]% by JT Glory, which is wholly-owned by Mr. Ng (our Chairman, chief executive officer and executive Director). For the purposes of the [REDACTED] Rules, JT Glory and Mr. Ng are our Controlling Shareholders.

## SUMMARY

### DIVIDEND POLICY

For the years ended 31 March 2014 and 2015, the interim dividends amounting to approximately HK\$16.5 million and HK\$5.6 million respectively represented interim dividends declared by a group entity to its then shareholder. 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 the Board in the future. For details please refer to the paragraph headed "Financial information — Dividend policy" in this document.

### RISK FACTORS

Potential investors are advised to carefully read the section headed "Risk factors" in this document before making any investment decision in the [REDACTED]. Some of the more particular risk factors include:

- We have a concentrated clientele base and any decrease in the number of projects with our top five customers would adversely affect our operations and financial results.
- 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.
- Our historical growth rate, revenue and profit margin may not be indicative of our future growth rate, revenue and profit margin.
- We depend on our suppliers for concrete and 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 were involved in certain on-going legal proceedings against us as at the Latest Practicable Date. If we were found liable, we might have to make compensations, incur significant financial loss, and suffer damage to our reputation.
- 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.
- 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.
- 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.
- Amount recognised as revenue by us may not be the same as the value of works to be certified by our customers.
- 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.

### HISTORICAL NON-COMPLIANCE INCIDENTS

There were instances where our Group failed to comply with certain applicable laws and regulations in Hong Kong during the Track Record Period, including non-compliance with: (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.



## DEFINITIONS

*In this document, unless the context otherwise requires, the following terms shall have the meanings set forth below.*

“Articles of Association” or “Articles”	the articles of association of our Company, adopted on [●] and as amended from time to time, a summary of which is set forth in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this document
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	our board of Directors
“Business Day”	has the meaning ascribed to it under the GEM Listing Rules
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of [REDACTED] new Shares to be made upon capitalisation of the share premium account of our Company as referred to in the paragraph headed “A. Further information about our Company and our subsidiaries — Written resolutions of the sole Shareholder passed on [●] 2016” in Appendix V to this document
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant(s)”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant(s)”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of the Board, Mr. Ng
“Ching Lee Construction”	Ching Lee Construction Limited (正利建築有限公司), being a company incorporated in Hong Kong with limited liability on 26 May 2003 and an indirect wholly-owned subsidiary of our Company
“Ching Lee Engineering”	Ching Lee Engineering Limited (正利工程有限公司) (previously known as Smart Gain Engineering Limited (正利工程有限公司)), being a company incorporated in Hong Kong with limited liability on 27 November 1998 and an indirect wholly-owned subsidiary of our Company

## DEFINITIONS

“Ching Lee Foundation”	Ching Lee Foundation Limited (正利地基有限公司), being a company incorporated in Hong Kong with limited liability on 10 August 2007 and an indirect wholly-owned subsidiary of our Company
“Ching Lee Group”	Ching Lee Group Limited, being a company incorporated in the BVI on 16 November 2015 and a direct wholly-owned subsidiary of our Company
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“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
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies Registry”	the Companies Registry of Hong Kong
“Company”	Ching Lee Holdings Limited (正利控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 16 November 2015 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 16 December 2015
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules, and in the context of our Company, means Mr. Ng and JT Glory
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Corporate Governance Code”	Appendix 15 to the GEM Listing Rules, as amended, supplemented or otherwise modified from time to time
“Deed of Indemnity”	the deed of indemnity dated [●] given by our Controlling Shareholders in favour of our Company (for ourselves and for the benefit of our subsidiaries) regarding certain indemnities, details of which are set out in the paragraph headed “E. Other information — Tax and other indemnities” in Appendix V to this document
“Deed of Non-competition”	the deed of non-competition dated [●] given by our Controlling Shareholders in favour of our Company (for ourselves and for the benefit of our subsidiaries) regarding non-competition undertaking, details of which are set out in the section headed “Relationship with the Controlling Shareholders” in this document

## DEFINITIONS

“Director(s)”	the director(s) of our Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Government”	the Government of Hong Kong
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries at the relevant time or, where the context refers to any time prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries and the business carried on by such subsidiaries or (as the case may be) our predecessors, and “we”, “our” or “us” shall be construed accordingly
“HIBOR”	Hong Kong Interbank Offered Rate
“HK\$”, “Hong Kong dollars”, “HK dollars” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	<b>[REDACTED]</b> , our Hong Kong branch share registrar and transfer office
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any directors, chief executive or Substantial Shareholders of our Company, our subsidiaries or any of their respective close associates
“Ipsos”	Ipsos Hong Kong Limited, an Independent Third Party, being a professional market research company
“Ipsos Report”	the commissioned industry report dated [●] on the market landscape and competitive analysis for construction main contracting industry in Hong Kong compiled by Ipsos, the content of which is quoted in this document
“JT Glory”	JT Glory Limited, being a company incorporated in the BVI with limited liability on 16 November 2015 and wholly-owned by Mr. Ng, and a Controlling Shareholder

## DEFINITIONS

“Kingsway Capital” or “Sponsor”	Kingsway Capital Limited, the sponsor for the [REDACTED] and a corporation licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
[REDACTED]”	[REDACTED]
“Latest Practicable Date”	[13 December 2015], being the latest practicable date prior to the publication of this document for ascertaining certain information contained in this document
“Legal Counsel”	Mr. Billy C.K. Poon, Barrister-at-law, Hong Kong
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“Listing Division”	the Listing Department of the Stock Exchange (with responsibility for GEM)
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, adopted on [●] and as amended from time to time
“Mr. Lam”	Mr. Lam Ka Fai (林嘉暉先生), being our executive Director
“Mr. Lui”	Mr. Lui Yiu Wing (呂耀榮先生), being our executive Director
“Mr. Ng”	Mr. Ng Choi Wah (吳彩華先生), being our Chairman, chief executive officer, executive Director and a Controlling Shareholder
“New Shares”	the [REDACTED] new Shares being offered by our Company for subscription under the [REDACTED]
[REDACTED]	[REDACTED]

## DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“PRC” or “China”	the People’s Republic of China which, for the purpose of this document, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Reorganisation”	the corporate reorganisation of our Group prior to the issue of this document, details of which are set out in the section headed “History, Reorganisation and group structure” in this document
“Right Lucky”	Right Lucky Limited (福正有限公司), being a company incorporated in Hong Kong with limited liability on 25 August 2005 and an indirect wholly-owned subsidiary of our Company
“Sale Shares”	the [REDACTED] existing Shares being offered by [REDACTED] for purchase under the [REDACTED]
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

## DEFINITIONS

“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on [●], the principal terms of which are set forth under the paragraph headed “D. Share Option Scheme” in Appendix V to this document
“Shareholder(s)”	holder(s) of issued Shares
“Significant Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two years ended 31 March 2015 and the six months ended 30 September 2015
“[REDACTED]”	the [REDACTED] of the [REDACTED] whose name is set out in the section headed “[REDACTED] — [REDACTED]” in this document
“[REDACTED]”	the [REDACTED] dated [●] relating to the [REDACTED] and entered into by our Company, executive Directors, Controlling Shareholders, [REDACTED], the Sponsor, the [REDACTED], the [REDACTED] and the [REDACTED], particulars of which are summarised in the section headed “Underwriting” in this document
“United States” or “US” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or U.S. dollars” or “USD”	United States dollars, the lawful currency of the United States

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancy in any table between totals and sums of individual amounts listed in any table is due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Unless expressly stated or the context otherwise requires, all data in this document is as at the date of this document.*

*If there is any inconsistency between the official Chinese name of the PRC entities mentioned in this document and their English translation, the Chinese version shall prevail. English translations of official Chinese names and English translations which are marked with “\*” are for identification purposes only.*

## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains terms used in this document in connection with our business or our Group. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.*

“CAGR”	compound annual growth rate
“GDP”	gross domestic product
“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 14001: 2004”	ISO 14001: 2004 is an internationally recognised standard for the environmental management of businesses. It aims at recognising the desirable behaviour of businesses concerning the environment. It prescribes controls for an encompassing range of corporate activities which include the use of natural resources, handling and treatment of waste and energy consumption
“ISO 9001: 2008”	ISO 9001: 2008 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 design, development, production, installation and servicing
“sq. ft.”	square foot (feet)
“sq. m.”	square metre(s)
“%”	per cent.

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our Group's business strategies and plans of operation;
- our Group's capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group's business;
- our Group's operations and business prospects;
- our Group's dividend policy;
- the regulatory environment of our Group's industry in general; and
- future development in our Group's industry.

The words "aim", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would" and the negative of these words or other similar expressions or statements, as they relate to our Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our Group's current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document in the section headed "Risk factors". One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this document, 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 document might not occur in the way our Company expects, or at all. Accordingly, Shareholders should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

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



## 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**

#### **We have a concentrated clientele base and any decrease in the number of projects with our top five customers would adversely affect our operations and financial results**

A significant portion of our revenue was derived from a small number of customers during the Track Record Period. Our top five customers for each of the two years ended 31 March 2015 and the six months ended 30 September 2015 accounted for approximately 86.0%, 75.4% and 83.3% of our revenue of the same periods, respectively. For the same periods, our largest customer accounted for approximately 40.8%, 20.4% and 23.7% of our revenue, respectively.

We did not enter into any long term service agreement with any of our customers as at the Latest Practicable Date. As such, there is no assurance that we will be able to retain our customers or that they will maintain their current level of business with us in the future. If there is a significant decrease in the number of projects awarded by our top five customers to us for whatever reasons, and we are unable to obtain suitable projects of a comparable size and quantity as replacement, our financial condition and operating results would be materially adversely affected. Besides, if any of our top five customers during the Track Record Period experiences any liquidity problem, this may result in delay or default of progress payments to us, which in turn would have an adverse impact on our cash flows and financial conditions. We cannot guarantee that we can diversify our clientele by obtaining significant number of new projects from new or other existing customers.

#### **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) repair, maintenance, alteration and addition ("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.

## **RISK FACTORS**

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, 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.

## RISK FACTORS

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 adversely affected, thereby damaging our business reputation and adversely affecting our financial results.

**We were involved in certain on-going legal proceedings against us as at the Latest Practicable Date. If we were found liable, we might have to make compensations, incur significant financial loss, and suffer damage to our reputation**

As at the Latest Practicable Date, we were involved in on-going legal proceedings against us. For details, please refer to the paragraph headed "Business — Legal proceedings and legal compliance" in this document.

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

**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**

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.

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.

## RISK FACTORS

**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 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.

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.

## RISK FACTORS

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

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.

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.

## RISK FACTORS

### **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 strategic business opportunities;
- limit our ability to incur additional debt; and
- increase our exposure to interest rate fluctuations.

Our gearing ratio was 603%, 310% and 192% 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 six months ended 30 September 2015, respectively. For details of the fluctuations in our retention payables to our suppliers and the trade creditors’ turnover days, please refer to the paragraph headed “Financial Information — Trade and other payables” in this document.

## **RISK FACTORS**

We rely on cash inflow from our customers to meet our payment obligations to our suppliers. As discussed in the preceding paragraph above, 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 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 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 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 adversely affected.

## **RISK FACTORS**

**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.

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.



## **RISK FACTORS**

### **We may be unable to attract and retain employees with the requisite skills, expertise and experience, 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.

### **Our capacity to procure and/or handle further projects may be impaired due to the limited capacity of our machinery and/or our machinery becoming obsolete as a result of technological developments in construction main contracting industry**

Our construction works can be generally regarded as machinery intensive works. As such, our ability to handle existing projects or compete for new projects is highly dependent on the number of machinery available for deployment in construction sites.

Our machinery includes cranes, excavators, grout pumps, crawler drills, generator and air compressors, and we consider that they had generally been highly utilised during the Track Record Period. As such, our capacity to procure and/or handle further projects may be impaired due to the limited capacity of our machinery. In view of the same, during the Track Record Period, we acquired and leased machinery and equipment from our suppliers in order to cope with the increasing demands for our services. For details of our machinery, please refer to the paragraph headed "Business — Our machinery" in this document.

Nevertheless, 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.

### **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.

## **RISK FACTORS**

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.

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.

## **RISK FACTORS**

### **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.

## RISK FACTORS

### **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 recognize 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 have not registered a leased property which may be encumbered and may face vacation**

As at the Latest Practicable Date, one of our leased properties may be encumbered and we have not registered that leased property which is registrable.

If the leased property is encumbered resulting in the lease being unenforceable against third parties and vacation of such leased property, we will incur additional costs in relocating to other suitable location. If we are not able to secure alternative site for our open storage site on commercially reasonable terms, there will be a material adverse impact on our business and operating results.

### **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.

## **RISK FACTORS**

**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.

### **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 are 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.

## **RISK FACTORS**

### **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 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 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

## RISK FACTORS

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.

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.

## **RISK FACTORS**

### **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 unaudited pro forma adjusted net tangible assets value to HK\$[0.065] per Share based on the [REDACTED] at HK\$[REDACTED] per [REDACTED] Share (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 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 [REDACTED] 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



## **RISK FACTORS**

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] 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.

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

**DIRECTORS**

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Ng Choi Wah (吳彩華先生)	Flat D, 41/F, Block 7 Island Harbourview 11 Hoi Fai Road Tai Kok Tsui Hong Kong	Chinese
Mr. Lui Yiu Wing (呂耀榮先生)	Flat C, 28/F Hing Hong Building No. 26-36 King's Road Hong Kong	Chinese
Mr. Lam Ka Fai (林嘉暉先生)	Room 11, G/F Kai Lim House, Cho Yiu Chuen Kwai Chung Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Dr. Wai Wing Hong Onyx (韋永康博士)	Flat A, 25/F Queen's Heights 16 Sui Wo Road Shatin 33, Sha Tin New Territories	Chinese
Mr. Tong Hin Sum Paul (湯顯森先生)	P3A St. John's College 82 Pokfulam Road Hong Kong	Chinese
Mr. Chau Kam Wing Donald (周錦榮先生)	Flat C, 11/F, Block 5 Park Island 8 Pak Lai Road Ma Wan New Territories	Chinese

Please refer to the section headed "Directors, senior management and staff" in this document for further information.

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

**PARTIES INVOLVED**

**Sponsor**

**Kingsway Capital Limited**

*A corporation licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities*

7/F, Tower One  
Lippo Centre  
89 Queensway  
Hong Kong

**[REDACTED], [REDACTED]  
and [REDACTED]**

**[REDACTED]**

**Legal advisers to our Company**

*As to Hong Kong law:*

**Stevenson, Wong & Co.**

4th and 5th Floors and 1602, Central Tower  
No.28 Queen's Road Central  
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*As to Hong Kong law (as to the Buildings Ordinance matters)*

**Deacons**

5th Floor, Alexandra House  
18 Chater Road  
Hong Kong

*As to Hong Kong law (as to the Construction Sites (Safety) Regulations matters)*

**Allen Chan & Co.**

Room A2501, A25th Floor, Asia Orient Tower  
88 Lockhart Road, Wanchai  
Hong Kong

*As to Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Legal adviser to the Sponsor and  
the [REDACTED]**

*As to Hong Kong law:*

**D. S. Cheung & Co.**

29th Floor, Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

**Auditor and reporting accountant**

**BDO Limited**  
*Certified Public Accountants*  
25th Floor, Wing On Centre  
111 Connaught Road Central  
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**Compliance adviser**

**Kingsway Capital Limited**  
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Lippo Centre  
89 Queensway  
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**Tax consultant**

**Edwin Yeung & Company (CPA) Limited**  
*Certified Public Accountants*  
12th Floor, Lucky Building  
39 Wellington Street, Central  
Hong Kong

**Property Valuer**

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

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headoffice and principal place of business in Hong Kong</b>	Room 203–204, 2nd Floor Hang Bong Commercial Centre 28 Shanghai Street Jordan Kowloon Hong Kong
<b>Website of the Company</b>	<a href="http://www.chingleeholdings.com">www.chingleeholdings.com</a>
<b>Company secretary</b>	Mr. Chan Ming Hang <i>HKICPA</i> Flat D, 7/F, Block 9 8 Shan Yin Road Grand Palisades Tai Po New Territories
<b>Authorised representatives</b>	Mr. Ng Choi Wah Flat D, 41/F, Block 7 Island Harbourview 11 Hoi Fai Road Tai Kok Tsui Hong Kong  Mr. Lui Yiu Wing Flat C, 28/F Hing Hong Building No. 26–36 King's Road Hong Kong
<b>Compliance officer</b>	Mr. Ng Choi Wah Flat D, 41/F, Block 7 Island Harbourview 11 Hoi Fai Road Tai Kok Tsui Hong Kong
<b>Audit committee</b>	Mr. Chau Kam Wing Donald ( <i>Chairman</i> ) Dr. Wai Wing Hong Onyx Mr. Tong Hin Sum Paul
<b>Remuneration committee</b>	Dr. Wai Wing Hong Onyx ( <i>Chairman</i> ) Mr. Ng Choi Wah Mr. Chau Kam Wing Donald
<b>Nomination committee</b>	Mr. Ng Choi Wah ( <i>Chairman</i> ) Dr. Wai Wing Hong Onyx Mr. Tong Hin Sum Paul



**CORPORATE INFORMATION**

**Principal banker**

**Standard Chartered Bank (Hong Kong) Limited**  
4-4A Des Voeux Road Central  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

**Dah Sing Bank, Limited**  
Dah Sing Financial Centre  
108 Gloucester Road  
Hong Kong

**The principal share registrar and transfer office**

[REDACTED]

**Hong Kong branch share registrar and transfer office**

[REDACTED]

## INDUSTRY OVERVIEW

*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the Ipsos Report prepared by Ipsos, which was commissioned by us. We believe that the information is 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, [REDACTED], the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates, advisers, directors, officers or representatives or any other person involved in the [REDACTED]. Neither our Group, [REDACTED], the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates, advisers, directors, officers or representatives nor any other person involved in the [REDACTED] make any representation as to the accuracy, completeness or fairness of such information from official government publications.*

*The information extracted from the Ipsos Report reflects estimates of market conditions based on sampling, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the potential investment of our Shares or in our Group. Our Directors believe that the sources of information extracted from the Ipsos Report are appropriate sources for such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report.*

### RELIABILITY OF INFORMATION IN THE IPSOS 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 Ipsos Report which may qualify, contradict or have an impact in the information therein.

### SOURCES OF INFORMATION

We have commissioned Ipsos, an independent market research company, to conduct an analysis of, and to report on, the construction industry (including building construction contracting industry, RMAA Works Industry contracting services and substructure works industry) in Hong Kong for the period from 2010 to 2019. The information and analysis contained in the Ipsos Report was assessed independently by Ipsos, including all its subsidiaries, divisions and units (collectively refer to “Ipsos Group”), is not connected to our Group in any way. Ipsos Limited charged us a total fee of approximately HK\$400,000 for the preparation and the use of the Ipsos Report, which our Directors consider to reflect market rates.

Ipsos has conducted research and data gathering based on (i) desk research; and (ii) primary research, including face-to-face and phone interviews with key stakeholders and industry experts in Hong Kong, such as government officials, developers, main contractors, subcontractors, architectures, quantity surveyors, industry experts, and associations in Hong Kong. In addition, intelligence gathered was analysed, assessed and validated using Ipsos’ in-house analysis models and techniques.

Ipsos Limited, being one of the worldwide offices of the Ipsos Group, which employs approximately 16,000 personnel worldwide across 87 countries, is specialised in conducting researches across various industrial sectors including tourism, financial services, cosmetics, regional luxury and high net worth research. Ipsos is independent of our Company and none of our Directors or their associates has any interest in Ipsos.

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

### Assumptions used in the Ipsos Report

- There is no external shock such as financial crisis or natural disasters to affect the demand and supply of the construction and hence the substructure works industry over the forecast period.
- The supply of construction and foundation works is expected to grow under government promotion such as the Ten Major Infrastructure Projects, urban renewal projects and etc.

### Parameters used in the Ipsos Report

- GDP value and GDP growth rate in Hong Kong from 2010 to 2014.

## INDUSTRY OVERVIEW

- Revenue of overall construction works performed by main contractors at construction sites in Hong Kong from 2010 to 2014.
- The revenue of (i) the building construction contracting industry; (ii) the RMAA Works industry; and (iii) substructure works industry in Hong Kong from 2010 to 2014.
- The number of public and private residential housing units produced in Hong Kong from 2010–2014.
- The total floor area of private office space completed in Hong Kong from 2010 to 2014.
- Historical average contract fee of (i) the building construction contracting industry; (ii) the RMAA Works industry; and (iii) substructure works industry in Hong Kong from 2010 to 2014.
- Price trend of steel, cement, concrete blocks and diesel fuel in Hong Kong from 2010 to 2014.
- Price trend of construction worker’s wages in Hong Kong from 2010 to 2014.
- Number of workers involved in the (i) the building construction contracting industry; (ii) the RMAA Works industry; and (iii) substructure works industry in Hong Kong from 2010–2014.
- Historical price trend of average wages for workers engaging in the foundation works in Hong Kong from 2010 to 2014.

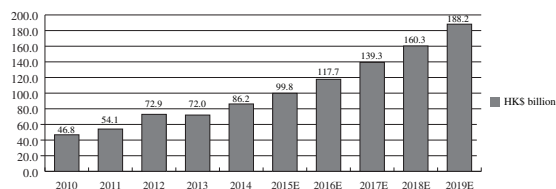
### MARKET OVERVIEW OF SUPERSTRUCTURE WORKS INDUSTRY AND RMAA WORKS INDUSTRIES IN HONG KONG

The revenue of superstructure works industry in Hong Kong increased from about HK\$46.8 billion in 2010 to about HK\$86.2 billion in 2014, at a CAGR of about 16.5%. Key reason for such growth include robust demand from the large scale and complex building construction work projects in the past 5 years, including shopping malls, office buildings and club houses.

The revenue of RMAA Works Industry experienced a positive growth from around HK\$31.0 billion in 2010 to around HK\$51.4 billion in 2014 at a CAGR of around 13.5%. Key reasons for such growth include:

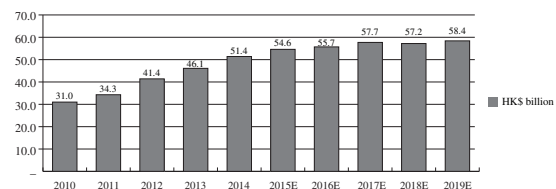
- (1) Government’s initiatives to implement policies and regulations as well as urban renewal plans to address the growing number of ageing residential buildings; and
- (2) Commercial building owners are adopting RMAA works to enhance the appearance and durability of office and retail spaces for potential tenants and customers.

**Revenue of superstructure works industry from 2010 to 2019**



Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

**Revenue of RMAA Works Industry in Hong Kong from 2010 to 2019**



Source: Construction Industry Council, HKSAR; IPSOS research and analysis

### Demand for building construction contracting and RMAA Works Industries in Hong Kong

#### *Superstructure Works Industry*

#### *Increase demand for office spaces*

The total number of newly registered local companies in Hong Kong hit a high record with approximately 167,280 in 2014, from 139,530 in 2010, representing a CAGR of about 4.6%. Newly registered non-Hong Kong companies also grew from about 737 in 2010 to about 811 in 2014, at a

## INDUSTRY OVERVIEW

CAGR of around 2.4%. The growing number of registered companies in Hong Kong has led to an increase in rental prices due to the limited office spaces in Hong Kong. Such growth indicates the increasing demand for both office and operating spaces and the increase in rental prices.

### *Increase supply of residential buildings*

Hong Kong government strived to increase housing land supply in order to stabilize the property market since 2011. The number of applicants on the waiting list for the public rental housing initiative increased at a CAGR of about 20.8% from 2010 to 2014. In addition, the residential property index increased from 150.9 in 2010 to 256.9 in 2014, representing a CAGR of 14.2%. With the long average waiting time as well as the increasing unaffordable housing prices, the government strived to increase the housing supply through a plan providing additional residential land for an average of 20,000 residential flats each year and a total of about 470,000 housing units for the next ten years. According to the 2015 Policy Address, it is estimated that around 210,000 residential units will be ready by 2019. Therefore, it is expected that the increasing supply of residential building will highly support the construction industry in Hong Kong.

### *RMAA Works Industry*

#### *Hong Kong government's enacted schemes*

Hong Kong government has launched variety of subsidies and assistance schemes to support the demand of RMAA Works Industry, including but not limited to:

- Mandatory Building Inspection Subsidy Scheme;
- The Third Party Risks Insurance Subsidy; and
- Operation Building Bright.

These schemes were launched to support property owners who wish to undertake building rehabilitation or renovation.

### *Increasing public awareness of building safety*

The accident and fatality caused by collapse of buildings have aroused public awareness of building safety, e.g. the tragic collapse of entire building undergoing renovations on January 29, 2010 in Ma Tau Wai Road. In addition, the Building Department revised the enforcement policy published in April 2011 to refocus its priorities and broadened the scope for enforcement action against unauthorized building works.

### *Rising number of aged buildings*

Buildings in Hong Kong are typically made of reinforced concrete and have a life span of about 50 years, thus the building maintenance and renovations are needed to help in extending the life of the building and slow down the pace of urban decay. According to the Development Bureau, there were about 39,000 private buildings in Hong Kong, around 13,000 to which have been built for over 30 years in 2013 and the number would increased to 22,000 by 2023. In addition, the number of private buildings which have been built for more than 50 years were about 3,000 according to the Hong Kong Institution of Engineers.

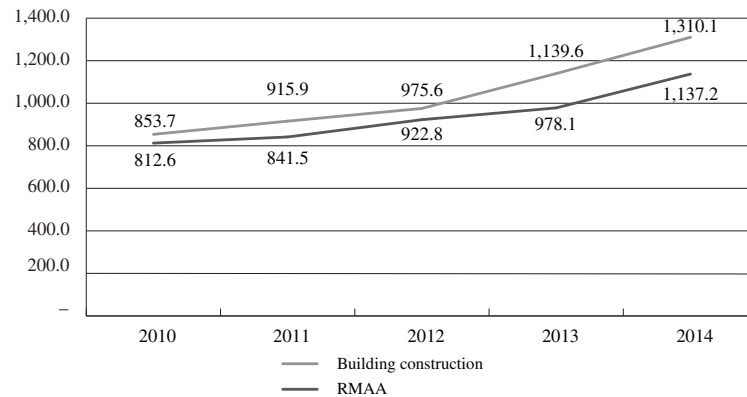
## INDUSTRY OVERVIEW

### HISTORICAL KEY COSTS COMPONENTS IN CONSTRUCTION INDUSTRY

#### Wages

The following set forth the historical average wage trend of workers in building construction industry and RMAA works industry in Hong Kong:

#### Historical average wage trend of workers (HK\$ per day per worker)



Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

#### Wages of workers

The average daily wage of workers engaging in the building construction industry in Hong Kong increased from HK\$853.7 in 2010 to around HK\$1,310.1 in 2014, at a CAGR of 11.3%. The average daily wage of workers engaging in the RMAA works industry in Hong Kong increased from HK\$812.6 in 2010 to HK\$1,137.2 in 2014, at a CAGR of approximately 8.8%. The key reasons for the increase in average daily wage of workers include but not limited to the following factors.

#### *Intensified labour shortage in Hong Kong's construction industry.*

The increase was mainly attributed to the labour shortage. The Hong Kong construction industry has been facing with labour shortage and the problem of ageing workers. According to the Construction Council, there were about 44.4% of the 336,002 registered workers who have been in the industry for more than 10 years aged over 50 at the end of 2014. In addition, the Public Housing Development Program and the Ten Major Infrastructure Projects launched by the government also increase the demand of skilled construction workers. Generally the average wage of construction workers is expected to grow in the next few years. Thus the building construction costs will rise which lead to contractors also raising average project fees accordingly.

#### *Government Initiatives*

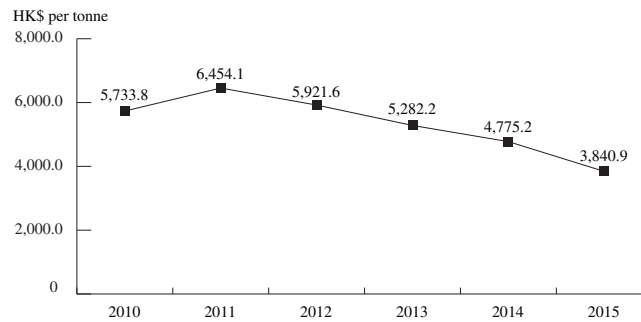
Hong Kong government's policies set out to regulate building owners to go through mandatory building inspections such as the launch of the Mandatory Building Inspection Scheme in June 2012 by the Buildings Department, which required 2,000 selected buildings over 30 years of age to be examined by registered inspectors. Once deemed inadequate, the owners must appoint a licensed contractor to execute the necessary repair works.

## INDUSTRY OVERVIEW

### Steel

The following set forth the historical trend of steel in Hong Kong:

#### Historical average trend of steel (wholesale price of steel reinforcements, high tensile steel bars, 10mm to 40mm) (HK\$ per tonne)



*Note:* Data for 2015 refers to the average price from January to July 2015

*Source:* Census and Statistics Department, HKSAR; IPSOS research and analysis

The average wholesale price of steel reinforcements decreased from approximately HK\$5,733.8 per tonne in 2010 to approximately HK\$3,840.9 per tonne in 2015, at a CAGR of about -7.7%.

Since September 2011, average wholesale price of steel reinforcements in Hong Kong has decreased due to the following factors:

- Worsening of European economy and China's monetary tightening policies, which brought difficulty in financing, decreased the downstream industries' demand for steel reinforcements;
- Decline in price of iron ore and coking coal for steel production during this period.
- Global drop in demand for new construction works as a result of the Eurozone debt crisis; and
- Over supply of steel.

To reduce business risks brought by price volatility, suppliers of construction materials usually use quotation, negotiation, tracking and forecasting to maintain control over steel prices.

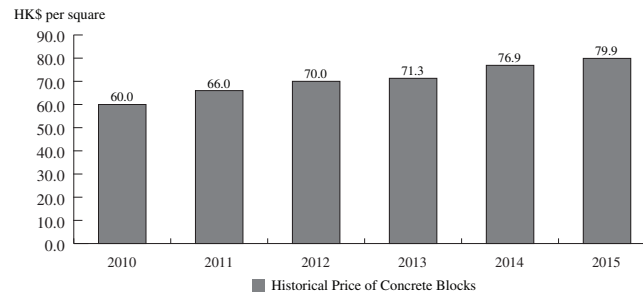
Average price of steel reinforcement continued to drop in 2015 as China seeks to shift away from investment-led growth to a consumption-driven economy. China's economy growth is projected to remain moderate during 2015–2016, which will impact the downstream industries' demand for steel and other construction materials.

## INDUSTRY OVERVIEW

### Concrete

The following set forth the historical trend of concrete in Hong Kong:

#### Historical average trend of concrete blocks (100mm thick) (HK\$ per square)



Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

The average wholesale price of concrete in Hong Kong had been relatively stable, and had increased from an average of about HK\$60.0 per square metre to an average of about HK\$79.9 per square metre, at a CAGR of about 5.9%. The steady price growth from 2010 to 2015 was attributed to the fact that more developers have preferred to use concrete, which can be used to construct durable and energy efficient buildings faster and cheaper.

As Hong Kong is expected to have a continual demand for commercial buildings, it is expected that the average wholesale price of concrete in Hong Kong will continue to increase in the coming years.

### COMPETITIVE LANDSCAPE

#### Top 5 main contractors engaged in the superstructure works industry in Hong Kong in 2014

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
1	Company A (Hong Kong)	7,642	8.9%	Building construction, civil engineering operations, other peripheral operations such as foundation work, site investigation, mechanical and electrical engineering, highway and bridge construction, ready-mixed concrete, pre-cast production and infrastructure investment
2	Company B (Hong Kong)	3,704	4.3%	Building construction, maintenance, renovation, plumbing and drainage works, electrical and mechanical works, building materials supply, precast products manufacturing and trading, property development, hotel and property investment, IT solution and services
3	Company C (Hong Kong)	3,031	3.5%	Design, management and construction services in building, civil engineering, foundations, electrical and mechanical, infrastructure maintenance and operation, and interiors refurbishments and fit out
4	Company D (Hong Kong)	2,999	3.5%	Construction of building, bored piling, foundation works, site formation, site infrastructure, roads and drainage, waterworks, site investigation, landslip preventive measures (LPM) and slope works
5	Company E (Hong Kong)	2,378	2.8%	Building construction, civil engineering, electrical and mechanical engineering, project and construction management, interiors and special projects, railway systems, property development and asset management services
N/A	Our Company (Hong Kong)	157	0.2%	Development and redevelopment of church, educational, residential and commercial buildings

## INDUSTRY OVERVIEW

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
Others		66,353	76.9%	
Total		<u>86,264</u>	<u>100.0%</u>	

*Note:* Revenue of the Company refers to the revenue generated from the superstructure building works industry in Hong Kong from April 2014 to March 2015

*Source:* Ipsos interviews and analysis

The superstructure works industry in Hong Kong was considered as fragmented, with top 5 players accounted for approximately 23.0% of the total industry revenue in 2014. In the superstructure works industry in Hong Kong, there were about 156 registered public building contractors at the Development Bureau; about 41 registered public housing contractors (New Works) at Housing Authority; and about 694 qualified registered general building contractors of the Buildings Department as of October 2015.

### *Factors of competition*

- (1) Quality of works: top priority in the construction industry. Inferior building works can have a disastrous influence on building safety and the construction schedule. Contractors will be blacklisted and debarred from the building projects for the unqualified building works.
- (2) Relationship with private developers: private developers generally have their own list of contractors for tender invitation. Therefore, building good and sustainable relationships with major developers is an advantage to building construction work contractors in being included in the preference list and winning private tenders.

### **Top 5 main contractors engaged in the RMAA Works Industry contracting services in Hong Kong in 2014**

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
1	Company B (Hong Kong)	1,271.6	2.5	Building construction, maintenance, renovation, plumbing and drainage works, electrical and mechanical works, building materials supply, precast products manufacturing and trading, property development, hotel and property investment, IT solution and services
2	Company F (Hong Kong)	1,254.5	2.4	Property development operations, construction, interior fitting out, building renovation, maintenance and cement operations
3	Company G (Hong Kong)	638.2	1.2	Civil engineering, building, foundations construction, electrical & mechanical installation, and fitting out works
4	Company E (Hong Kong)	570.2	1.1	Building construction, civil engineering, electrical and mechanical engineering, project and construction management, interiors and special projects, railway systems, property development and asset management services.
5	Company H (Hong Kong)	530.9	1.0	Real estate and property development, civil engineering, building construction, oil and gas exploration and investment
N/A	Our Company (Hong Kong)	25.7	0.04%	Refurbishment, fitting-out works, renovation works, restoration works and external works
Others		<u>47,137.5</u>	<u>91.76%</u>	
Total		<u>51,428.6</u>	<u>100.0%</u>	

*Note:* Revenue of the Company refers to the revenue generated from RMAA works industry in Hong Kong from April 2014 to March 2015

*Source:* Ipsos interviews and analysis



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The RMAA market is not dominated by the top players with top 5 players only accounted for approximately 8.2% of the total industry in 2014. There were around 340 approved RMAA main contractors in 2014. The revenue of RMAA industry experienced a positive growth from around HK\$ 31.0 billion in 2010 to around HK\$ 51.4 billion in 2014 at a CAGR of around 13.5%, and is estimated to keep growing at a moderate rate from 2015 to 2019.

### *Factors of competition*

- (1) Reputation and track record: reputation and credibility is based on the track record from previous projects, in terms of timeliness of delivery, quality of work, safety and environment requirement fulfillment, such as following the safety regulations for building maintenance and renovation work. Players with strong reputation and credibility are able to gain trust from property owners which can increase the likelihood of winning projects.
- (2) Price: an important concern for customers. players who can offer lower prices are generally more competitive in the RMAA industry in Hong Kong.
- (3) Scale and Scope: players with larger market share and larger in size are generally more preferred by government-related organizations. Also, those with specialties in related field of the project are more likely to be chosen.

### **Top 5 main contractors engaged in the substructure works industry in Hong Kong in 2014**

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
1	Company I (Hong Kong)	2,990	15.4%	Large diameter bored pile (with bell-out), mini-pile, precast prestressed tubular pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile, steel tubular pile
2	Company A (Hong Kong)	2,289	11.8%	Large diameter bored pile (with bell-out), precast concrete pile, precast prestressed tubular pile, rock-socketed steel H-pile
3	Company C (Hong Kong)	1,654	8.5%	Barrette pile, large diameter bored pile (with bell-out), mini-pile, non-percussion cast-in-situ concrete pile, percussion cast-in-situ concrete pile, precast prestressed tubular pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile, steel tubular pile
4	Company J (Hong Kong)	1,233	6.3%	Large diameter bored pile (with bell-out), mini-pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile
5	Company K (Hong Kong)	1,219	6.3%	Driven steel H-pile, driven precast concrete pile, prebored socketed steel H-pile, mini-pile, prebored friction pile, pipe pile, soldier pile and sheet pile for pile wall, bored pile, footing and pile caps
N/A	Our Company	130	0.7%	Demolition and hoarding, site formation and foundation works
Others		<u>10,061</u>	<u>51.7%</u>	
Total		<u><u>19,446</u></u>	<u><u>100.0%</u></u>	

*Note:* Revenue of the respective companies refers to the revenue generated from the substructure works industry in Hong Kong from January 2014 to December 2014. Revenue of the Company refers to the revenue generated from the substructure works industry in Hong Kong from April 2014 to March 2015.

*Source:* Ipsos interviews and analysis

In 2014, the substructure works industry in Hong Kong was consolidated with the top 10 players accounted for approximately 69.2% of the total industry revenue. The top 5 foundation contractors contributed approximately HK\$9.6 billion to Hong Kong's foundation industry in 2014. As of September 2015, there were 136 registered contractors under the Buildings Department as the Specialist Contractors (Sub-register of Foundation Works Category), and 40 registered contractors under the Development Bureau as the Specialist Contractors for Public Works under the land piling category. Furthermore, there were 10 registered contractors in the large diameter bored piling category and 9 registered contractors in the percussive piling category of the Housing Authority respectively.

## INDUSTRY OVERVIEW

### *Factors of competition*

- (1) Established reliable working relationships: a foundation contractor is considered competitive if they can maintain good relationships with their customers, subcontractors and raw material suppliers.
- (2) Experience in foundation works project management and technical expertise: technical expertise and experience in foundation project management is an important factor to meet project timeline, quality and budget. With good technical understanding of foundation works by an experienced project management team, the contractor is able to address different issues that may arise during project execution, and foresee potential problems during the project.
- (3) Industry reputation and proven track record: foundation contractors with a proven track record would have better industry reputation and would be more likely to win project tenders based on their proven reliability and experience in completing foundation works.

### **Entry Barriers**

#### *(1) Industry expertise and experience*

According to section 8B of the Buildings Ordinance, service providers are expected to possess knowledge in performing preventative maintenance measures. In addition, having an experienced team is often considered to be crucial in the construction industry.

#### *(2) Track record*

Contractors with a proven track record would be more likely to win project tenders based on their proven reliability and experience.

### **Opportunities**

#### *(1) Increase demand for office spaces and residential buildings*

The demand for both office and operating spaces in Hong Kong are increasing together with the rental prices. In addition, Hong Kong government strived to increase housing land supply in order to stabilize the property market since 2011. It is expected that the increasing supply of residential building will highly support the construction industry. All of these contribute to the growth of the construction industry in Hong Kong.

#### *(2) Government's enacted schemes and rising number of aged buildings*

According to the Development Bureau, there were about 39,000 private buildings in Hong Kong, around 13,000 to which have been built for over 30 years in 2013 and the number would increase to 22,000 by 2023. Hong Kong government has launched policies to encourage building maintenance and renovation such as the Mandatory Building Inspection Subsidy Scheme to help property owners fund for regular building maintenance and repair practices. Such policies will be able to increase demand for RMAA works.

### **Threats**

#### *Labour shortage in Hong Kong*

The Hong Kong construction industry has been facing with labour shortage and the problem of ageing workers, together with growing demand for works. The average daily wage of workers engaging in the building construction industry in Hong Kong increased at a CAGR of 11.3% from 2010 to 2014. The average wage of construction workers is expected to grow in the next few years, leading to rising construction costs which lead to contractors also raising average project fees accordingly.

### **Competitive Strength of our Group in the construction contracting service industry in Hong Kong**

#### **Established main contractors with extensive services**

- As an established main contractor in Hong Kong, the Company has been operating for more than 17 years with businesses.
- The Company's ability to provide wide range of main contracting services allows them to cater different needs of the customers in different stages of building construction.
- The Company was the registered general building contractor under the Buildings Department. It also registered as specialist contractors under both foundation works category and site formation category. In addition, the Company was on Works Branch Development Bureau's list of approved

## INDUSTRY OVERVIEW

suppliers and materials and specialist contractors for public works under repair and restoration of historic buildings. With sufficient licenses and qualifications, the Company is able to tender different kinds of projects in Hong Kong's main contracting services industry.

- In addition to a variety kinds of license and qualifications, the Company owns certificate of ISO 9001: 2000, ISO 9001:2008 and ISO 14001:2004, which is applicable to construction, maintenance, renovation of building works and services.

### **Established relationships with subcontractors and customers**

- The Company has maintained a established relationship with subcontractors, most of whom they have cooperated for more than 15 years.
- Able to cooperate with reliable subcontractors with specialized skills, which also help to assure the project quality and efficiency. With the engagement of subcontractors, the Company is also able to focus in quality control and overall project management and supervision.
- The Company has established close relationship with customers. 99% of the Company's projects come from private sector and private developers with their own preference list of contractors for tender invitation, so having a long-term stable relationship with its customers provides the Company more opportunities and higher chances to win tenders and also demonstrate the Company's ability to provide high-quality works within time and budget.

### **Experienced management team**

- The Company has an experience and dedicated management team with 27 people who processed extensive knowledge of the construction industry and project management experience.
- The Company's executive Director and members of their senior management have an average industry experience of more than approximately 15 years.
- The management team supervises the sites by conducting regularly check on the sites.
- In addition, the Company uses a strict quality management system to assure the quality of the construction works and site safety. The Company also has training schools and set up training courses for their employees in order to improve their technical ability and skills.
- With the guidance of the management team and skilful workers, the Company is able to perform high-quality construction works within time and budget.

## REGULATORY OVERVIEW

### THE LAWS AND REGULATIONS OF HONG KONG

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 Construction Labour, Health and Safety

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

The Construction Workers Registration Ordinance provides for the registration of construction worker and related matters.

According to Section 3 of the Construction Workers Registration Ordinance, a person shall not personally carry out on a construction site construction work unless the person is a registered construction worker. Further, Section 5 of the Construction Workers Registration Ordinance provides that no person shall employ unregistered construction workers to carry out on construction sites construction work.

If (i) there is a contravention of Section 3 of the Construction Workers Registration Ordinance and the person who commits the contravention is employed by a principal contractor for the construction site concerned, or a sub-contractor of such a principal contractor; or (ii) there is a contravention of Section 5, and the person who commits the contravention is a sub-contractor of a principal contractor for the construction site concerned, that principal contractor also commits an offence and is liable on conviction to a fine at level 5 (currently at HK\$50,000).

In addition, according to Section 58 of the Construction Workers Registration Ordinance, a principal contractor/controller of a construction site is required to:

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

within two business days following the last day of the period concerned.

A person who, without reasonable excuse, contravenes Section 58 of the Construction Workers Registration Ordinance commits an offence and is liable on conviction to a fine at level 3 (currently at HK\$10,000).

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

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in an industrial undertaking. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor (including person for the time being having the management or control of the business carried on in such industrial undertaking and also the occupier of any industrial undertaking) of an industrial undertaking to take care of, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- (a) providing and maintaining plant and work systems that do not endanger safety or health;
- (b) making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- (c) providing all necessary information, instructions, training and supervision for ensuring safety and health;
- (d) providing and maintaining safe access to and egress from the workplaces; and
- (e) providing and maintaining a safe and healthy working environment.

A proprietor who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these requirements wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for 6 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) safety of excavations; (vi) the duty to comply with miscellaneous safety requirements; and (vii) provision of first aid facilities. Non-compliance with any of these rules commits an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence 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.

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

- (a) provision and maintenance of plant and systems of work that are safe and without risks to health;
- (b) making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;

## REGULATORY OVERVIEW

- (c) as regards any workplace under the employer's control:
  - (i) maintenance of the workplace in a condition that is safe and without risks to health; and
  - (ii) provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;
- (d) providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- (e) provision and maintenance of a working environment that is safe and without risks to health.

Failure to comply with any of the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commission for Labour may also issue an improvement notice against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such notices without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months.

### ***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.

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.

According to Section 15(1A) of the Employees' Compensation Ordinance, employer shall report work injuries of its employee to the Commissioner of Labour not later than 14 days after the accident.

According to Section 24 of the Employees' Compensation Ordinance, a main contractor shall be liable to pay compensation to subcontractors' employees who are injured in the course of their employment to the subcontractor. The main contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employee independently of this section. The employees in question are required to serve a notice in writing on the main contractor before making any claim or application against such main 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

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respect of all their employees (including full-time and part-time employees). Under Section 40(1B) of the Employees' Compensation Ordinance, where a main contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of its subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a main contractor has taken out a policy of insurance under Section 40(1B) of the Employees' Compensation Ordinance, the main contractor and a subcontractor insured under the policy shall be regarded as having complied with Section 40(1) of the Employees' Compensation Ordinance.

An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction upon indictment to a fine at level 6 (currently at HK\$100,000) and imprisonment for 2 years.

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

A main contractor shall be subject to the provisions on subcontractor's employees' wages in the Employment Ordinance. According to Section 43C of the Employment Ordinance, a main contractor, or a main contractor and every superior subcontractor jointly and severally is/are 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. The liability of a main contractor and superior subcontractor (where applicable) shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the main contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and (b) to the wages due to such an employee for 2 months (such months shall be the first 2 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 main contractor within 60 days after the wage due date. A main 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 main contractor.

Upon receipt of such notice from the relevant employee, a main contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware. A main contractor who without reasonable excuse fails to serve notice on the superior subcontractor(s) 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 main 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 main contractor or superior subcontractor, as the case may be. The main contractor or superior subcontractor may either (1) claim contribution from every superior subcontractor to the employee's employer or from the main contractor and every other such superior subcontractor as the case may be, or (2) deduct by way of set off the amount paid by him from any sum due or may become due to the subcontractor in respect of the work that he has subcontracted.

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

Employers are required to enroll 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.

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

### *Industry Scheme*

Industry Schemes were established under the MPF system for employers in the construction and catering industries in view of the high labour mobility in these two industries, and the fact that most employees in these industries are "casual employees" whose employment is on a day-to-day basis or for a fixed period of less than 60 days.

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

- (1) foundation and associated works;
- (2) civil engineering and associated works;
- (3) demolition and structural alteration works;
- (4) refurbishment and maintenance works;
- (5) general building construction works;
- (6) fire services, mechanical, electrical and associated works;
- (7) gas, plumbing, drainage and associated works; and
- (8) interior fitting-out works.

The Mandatory Provident Fund Schemes Ordinance does not stipulate that employers in these two industries must join the Industry Schemes. The Industry Schemes provide convenience to the employers and employees in the construction and catering industries. Casual employees do not have to switch schemes when they change jobs within the same industry, so long as their previous and new employers are registered with the same Industry Scheme. This is convenient for scheme members and saves administrative costs.

### *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.



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

According 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) shall 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\$32.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

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

### *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 construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the Director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) in populated areas are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has

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been granted by the Director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Director of the Environmental Protection Department.

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent convictions to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

### *Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)*

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

All discharges, other than domestic sewage to a communal foul sewer or unpolluted water to a storm drain, must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent. The general guidelines are that the effluent does not damage sewers or pollute inland or inshore marine waters.

According to the Water Pollution Control Ordinance, unless being licensed under the Water Pollution Control Ordinance, a person who discharges any waste or polluting matter into the waters of Hong Kong in a water control zone or discharges any matter, other than domestic sewage and unpolluted water, into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for 6 months and (a) for a first offence, a fine of HK\$200,000; (b) for a second or subsequent offence, a fine of HK\$400,000 and (c) in addition, if the offence is a continuing offence, a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

### *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, including without limitation the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

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

Under the Waste Disposal (Chemical Waste) (General) Regulation, a person who produces chemical waste or causes it to be produced has to register as a chemical waste producer. Any chemical waste produced must be packaged, labeled and stored properly before disposal. Only a

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licensed waste collector can transport the waste to a licensed chemical waste disposal site for disposal. Chemical waste producers also need to keep records of their chemical waste disposal for inspection by the 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 the Environmental Protection Department. A person who except under and in accordance with a permit or authorisation, does, causes or allows another person to do anything for which such a permit or authorisation is required commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months for the first offence, and to a fine of HK\$500,000 and to imprisonment for months for a second or subsequent offence.

### ***Dumping at Sea Ordinance (Chapter 466 of the Laws of Hong Kong)***

Under the Dumping at Sea Ordinance, any waste producer involved in marine dumping and related loading operations are required to obtain permits from the Director of the Environmental Protection.

Under the Dumping at Sea Ordinance, a person who except under and in accordance with a permit, does anything or causes or allows another person to do anything for which a permit is needed commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months on a first conviction; and to a fine of HK\$500,000 and to imprisonment for 2 years on a second or subsequent conviction; and in addition, to a further fine of HK\$10,000 for each day if the court is satisfied that the operation has continued.

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

The Environmental Impact Assessment Ordinance is to avoid, minimise and control the adverse environmental impacts from designated projects as specified in Schedule 2 of the Environmental Impact Assessment Ordinance (for example, public utility facilities, certain large-scale industrial activities, community facilities, etc.) through the application of the environmental impact assessment process and the environmental permit system by the persons who is planning such designated project prior to their construction and operation (and decommissioning, if applicable), unless otherwise exempted.

According to the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project as listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (which includes roads, railways and depots, dredging operation, residential and other developments, etc.) or decommissions a designated project listed in Part II of Schedule 2 of the Environmental Impact Assessment Ordinance without an environmental permit for the project; or contrary to the conditions, if any, set out in the permit. The offender is liable (a) on a first conviction on indictment to a fine of HK\$2,000,000 and to imprisonment for 6 months; (b) on a second or subsequent conviction on indictment to a fine of HK\$5,000,000 and to imprisonment for 2 years; (c) on a first summary conviction to a fine at level 6 and to imprisonment for 6 months; (d) on a second or subsequent summary conviction to a fine of HK\$1,000,000 and to imprisonment for one year, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK\$10,000 for each day on which he is satisfied the offence continued.

### ***Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)***

Pursuant to Section 127 of the Public Health and Municipal Services Ordinance, where a nuisance notice is served on the person by reason of whose act, default or sufferance the nuisance arose or continues, or of that person cannot be found, on the occupier or owner of the premises or

## REGULATORY OVERVIEW

vessel on which the nuisance exists, then if either the nuisance to which the notice relates arose by reason of the wilful act or default of that person; or that person fails to comply with any of the requirements of the notice within the period specified therein, that person shall be guilty of an offence.

Emission of dust from any building under construction or demolition in such manner as to be a nuisance is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$10,000 (level 3) upon conviction with a daily fine of HK\$200.

Discharge of muddy water etc. from a construction site is actionable under the Public Health and Municipal Services Ordinance. Maximum fine is HK\$5,000 upon conviction.

Any accumulation of water on any premises found to contain mosquito larvae or pupae is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$25,000 (level 4) upon conviction and a daily fine of HK\$450.

Any accumulation of refuse which is a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$10,000 (level 3) upon conviction and a daily fine of HK\$200.

Any premises in such a state as to be a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is HK\$10,000 (level 3) upon conviction and a daily fine of HK\$200.

### **C. Law and Regulations in relation to Contractor Licensing**

#### ***General Building Contractor/Specialist Contractor***

Under the current contractors registration system in Hong Kong, the Building Authority shall keep a register of general building contractors who are qualified to perform the duties of a general building contractor and a register of specialist contractors who are qualified to carry out specialised works (such as foundation works) specified in the category in the sub-register in which they are entered. Registered general building contractors may carry out general building works and street works which do not include any specialised works designated for registered specialist contractors.

Set out below are the requirements to register as a general building contractor, specialist contractor in foundation works under the Buildings Department.

Under Section 8B(2) of the Buildings Ordinance, an applicant for registration as a registered general building contractor or registered specialist contractor must satisfy the Director of Buildings ("Building Authority") on the following aspects:

- (a) if it is a corporation, the adequacy of its management structure;
- (b) the appropriate experience and qualifications of its personnel;
- (c) its ability to have access to plants and resources; and
- (d) the ability of the person appointed to act for the applicant for the purposes of the Buildings Ordinance to understand building works and street works through relevant experience and a general knowledge of the basic statutory requirements.

## REGULATORY OVERVIEW

In considering each application, the Building Authority is to have regard to the qualifications, competence and experience of the following key personnel of the applicant:

- (a) minimum of one person appointed by the applicant to act for the applicant for the purposes of the Buildings Ordinance, hereinafter referred to as an 'Authorised Signatory';
- (b) for a corporation — a minimum of one director from the board of directors of the applicant, hereinafter referred to as a 'Technical Director' who is authorised by the board to:
  - (i) have access to plant and resources;
  - (ii) provide technical and financial support for the execution of building works and street works; and
  - (iii) make decisions for the company and supervise the Authorised Signatory and other personnel for the purpose of ensuring that the works are carried out in accordance with the Buildings Ordinance; and
- (c) for a corporation which appoints a director who does not possess the required qualification or experience as Technical Director to manage the carrying out of building works and street works — an 'Other Officer' authorised by the board of directors to assist the Technical Director.

Registered contractors intending to add a new authorised signatory/technical director/other officer should submit their applications in a specified form together with the following documents and fees, as the case may be, to the Buildings Department for consideration:

- (a) supporting documents on the qualifications and experience of the proposed authorised signatory/technical director/other officer;
- (b) for a corporation, a statement on:
  - (i) the management structure and organisation chart of the company and its decision making mechanism for technical and financial matters; and
  - (ii) a resolution from the board of directors regarding the appointment of the authorised signatory/technical director/other officer of the company.
- (c) declarations in the Buildings Department stand forms which cover exhaustively the conviction, disciplinary and suspension records of the proposed authorised signatory/technical director/other officer;
- (d) documents relating to business registration; and
- (e) the prescribed fee (for authorised signatory only) in accordance with the Building (Administration) Regulation.

Unless the new authorised signatory/technical director/other officer has been previously accepted by the Buildings Department, the new authorised signatory and, when necessary, the new technical director/other officer will be required to attend a full-scope interview and will be assessed mainly on the following aspects:

## REGULATORY OVERVIEW

- (a) the documents submitted by the applicant;
- (b) the adequacy of the management structure in respect of the role and duties of the authorised signatory/technical director/other officer;
- (c) the appropriate experience, qualifications and competence of the authorised signatory/technical director/other officer; and
- (d) the ability of the new authorised signatory to apply knowledge in the following aspects:
  - (i) the statutory role, function and duties of a registered general building contractor or a registered specialist contractor as the case may be in relation to the role and responsibilities of the Buildings Department in respect of private building developments in Hong Kong;
  - (ii) the objectives of the Buildings Ordinance and relevant regulations and the mechanism of control in respect of the execution and supervision of building works;
  - (iii) a general awareness of local conditions sufficient to enable him to practice in Hong Kong efficiently and effectively without having to make frequent enquiries on matters of common local knowledge;
  - (iv) a working knowledge and principles of the Buildings Ordinance and relevant regulations, relevant code of practice, practice notes, circular letters and other advisory information, the relevant requirements under other laws and regulations and the requirements of other authorities which exercise control over the carrying out of building works;
  - (v) the fundamental procedures that a registered contractor must follow in order to meeting local statutory requirements; and
  - (vi) adequate technical knowledge and practical experience in building construction to enable him to discharge his duties as a registered general building contractor or registered specialist contractor.

Prior notification to the Buildings Department is required if any of the accepted authorized signatory/technical director/other officer intend to resign from his duties or will cease to be appointed by the contractor. Retrospective notification to the Buildings Department will not be accepted. The registered contractor is required to suspend all the building works immediately if there is no authorised signatory appointed to act for the contractor for the purposes of the Buildings Ordinance or if there is no technical director acting for the contractor and an acceptable replacement is not appointed within a reasonable period of time.

Under Section 8C(2)(c) of the Buildings Ordinance, a registered contractor should apply to the Buildings Department for renewal of registration not earlier than 4 months and not later than 28 days prior to the date of expiry of the registration. Application for renewal of registration received by the Buildings Department outside the specified time limit under Section 8C(2)(c) will not be accepted. The application should comprise:

- (a) a duly completed specified form;

## REGULATORY OVERVIEW

- (b) declarations in Buildings Department standard forms covering exhaustively the conviction/disciplinary/suspension records of the applicant and its key personnel i.e. the authorised signatory(ies), the technical director(s) and the other officer(s) in certain aspects;
- (c) a job reference on a minimum of one relevant building project;
- (d) certain documents relating to business registration; and
- (e) the prescribed fee in accordance with the Building (Administration) Regulation.

Generally, an application for renewal of registration would not be referred to the Contractors Registration Committees, independent bodies appointed by the Buildings Department under Section 8 of the Buildings Ordinance for interview and assessment, except in the following circumstances:

- (a) the contractor has been inactive in relevant building works in the past registration period (i.e. without a job reference on a minimum of one relevant building project); or
- (b) there have been new incidents or circumstances that require further consideration on the sustainability of the contractor's registration. New incidents or circumstances include, but not limited to, the contractor's conviction/disciplinary/suspension records and subject to the following approach adopted by the Buildings Department in relation to labour safety, public health and environmental offences and records of suspension from tendering by the Development Bureau, the Housing Authority or their related departments in determining if a contractor is required to attend an interview:
  - (i) a contractor who has been convicted or disciplined under the Buildings Ordinance is required to attend an interview;
  - (ii) a contractor who has been convicted of a serious labour safety offence (such as an offence which involves a fatal incident or amputation of limb), is required to attend an interview;
  - (iii) a contractor who has been convicted of 7 or more labour safety offences committed within a rolling 6 months is required to attend an interview;
  - (iv) a contractor who has been convicted of 4 or more offences under Section 27(3) of the Public Health and Municipal Services Ordinance committed on the same site within a rolling 3 months is required to attend an interview;
  - (v) a contractor who has been convicted of 4 or more environmental offence on the same site within a rolling 3 months will be required to attend an interview; and
  - (vi) for a contractor who has been suspended from tendering by the Development Bureau, the Housing Authority or their related departments, the Building Department will consider the reasons of suspension. Generally, only factors which infer deficiencies of the contractors in technical competence or management ability, and factors related to standard of works, misconduct and site safety will be taken into consideration.

The registration of a contractor will continue to be in force if he makes an application for renewal within the time limit and pays the renewal fee until his application for renewal is finalized by the Building Department.

## **REGULATORY OVERVIEW**

According to Section 8C of the Buildings Ordinance, the Building Department may refuse an application for renewal of registration and remove the name of the applicant from the register if:

- (a) he is satisfied that the applicant is no longer suitable (for any reason) for registration on the relevant register; or
- (b) the applicant fails to provide relevant information and documentary proof required by the Building Department including, but not limited to, updated information on matters supplied on previous applications for registration or renewal of registration.

### ***Buildings Ordinance (Chapter 123 of the Laws of Hong Kong)***

Under the Section 14(1) of the Buildings Ordinance, no person shall commence or carry out any building works, including alteration, addition and every kind of building operation, without having obtained approval and consent from the Building Authority. Any person who intends to carry out alteration or addition building works in existing premises is required to appoint an authorised person, and where necessary a registered structural engineer, to prepare and submit plans for the approval of Building Authority under the Buildings Ordinance. He is also required to appoint a registered contractor to carry out the building works. The Building Authority may require that all such building works carried out in such a way that the building will comply with the standards of the Buildings Ordinance.

Under the Section 4(1) of the Buildings Ordinance, every person for whom building works or street works are to be carried out shall appoint:

- (a) an authorised person as the co-ordinator of such building works or street works;
- (b) a registered structural engineer for the structural elements of such building works or street works if so required under this Buildings Ordinance; and
- (c) a registered geotechnical engineer for the geotechnical elements of such building works or street works if so required under this Buildings Ordinance.

### ***Private sector foundation works projects***

Private sector foundation works projects cover projects launched by private developers as well as any other entities not being Hong Kong government departments and statutory bodies, including but not limited to utility companies, charity organisations, and private educational institutions.

In order to undertake private sector foundation works as main contractor, a contractor must be registered with the Buildings Department as a registered specialist contractor under the categories of foundation works, unless the main contractor subcontracts those works to a registered specialist contractor as described below.

Where the main contractor engages a registered specialist contractor under the categories of foundation works to undertake foundation works as registered with the Building Department, irrespective of whether such foundation works form the whole or part of the contract works, the main contractor itself would not be required to be a registered specialist contractor under that category.

Subcontractors appointed to carry out foundation works are required to be registered specialist contractors under the categories of foundation works.



## REGULATORY OVERVIEW

For any foundation works where an entity is involved as a subcontractor, if there is a registered specialist contractor who is registered with the Buildings Department under that category to supervise the works and liaise with the Buildings Authority, the entity itself is not required to be such registered specialist contractor or to obtain any requisite licenses, permits and approval for its operation and business except the business registration.

The registration requirements mentioned above are the basic requirements for undertaking private sector foundation works projects. Other additional requirements on the main contractors or subcontractors may be imposed by the developers, main contractors, or other entities, as the case may be.

### ***Regulatory actions against contractors by the Development Bureau***

The Development Bureau may take regulatory actions against contractors for failure to meet the financial criteria within prescribed time, unsatisfactory performance, misconduct or suspected misconduct, poor site safety record, and poor environmental performance, court convictions such as contravention of site safety legislation and the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and employment of illegal works etc.

For instance, if a qualified contractor is convicted of a series of safety or environmental offences within a short period of time in a project, or if a fatal construction accident occurs at a construction site for which the contractor is responsible, the government may take regulatory actions against the responsible contractor, which include the removal, suspension (which means a contractor is prohibited from tendering for works of the relevant category during the suspension period) and downgrading (which includes downgrading or demoting the contractor's qualification to a lower status or class in all or any specified category) of the contractor's licence, depending on the seriousness of the incident triggering the regulatory actions.

## **D. Law and Regulations in relation to levy**

### ***Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) ("CICO")***

According to section 32 of the CICO, 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 Construction Industry Council ("CIC"). "Construction operation" is exhaustively defined under Schedule 1 of the CICO, 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.

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

According to section 34 of the CICO, the contractor and authorized 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.

## REGULATORY OVERVIEW

Pursuant to section 35 of the CICO, 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.

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 CICO, 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 CICO, 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.

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 CICO are, whichever is the last of the following periods:

- (a) 2 years after the completion of all construction operations under the contract, or without term contract 2 years after the completion of the construction operations;
- (b) 2 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.

### ***Pneumoconiosis and Mesothelioma (Compensation) Ordinance (Chapter 360 of the Laws of Hong Kong) (“PMCO”) and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (Chapter 360A of the Laws of Hong Kong) (“PMCALR”)***

According to section 35 of the PMCO, pneumoconiosis compensation fund levy (“**PCFL**”) is imposed in respect of construction operations carried out in Hong Kong. PCFL is rated at 0.15% of the value of the construction operations (0.25% before 2012) and not chargeable if the total value (as defined under section 39D of PMCO) do not exceed HK\$1,000,000. Pursuant to section 39A of the PMCO, PMCO does not apply to construction operations for domestic unit, or for the sole and principal purpose of renovation.

Pursuant to section 35(5) of the PMCO, the contractor is liable to make a payment of PCFL only if the Pneumoconiosis Compensation Fund Board (“**PCFB**”) serves a NOA. PCFL, surcharge, penalty or further penalty is recoverable by the PCFB as civil debt under the jurisdiction of the District Court. Fraudulent evasion of the payment of PCFL is liable for a fine of HK\$10,000 or 20 times the amount of PCFL, whichever is greater.

## REGULATORY OVERVIEW

Contractors are required to:

- (a) inform the PCFB the commencement of construction operations within 14 days thereafter by a notice of commencement (Form 1). Failure to comply without reasonable excuse is liable for a fine at Level 2, which is fixed at HK\$5,000;
- (b) inform the PCFB within 14 days after the contractor receives a payment in respect of the construction operation by a NOP (Form 2). Failure to comply without reasonable excuse is liable for a fine at Level 2, which is fixed at HK\$5,000; and
- (c) inform the PCFB the completion of the construction operations within 14 days by a NOC (Form 3). Failure to comply without reasonable excuse is liable for a fine at Level 2, which is fixed at HK\$5,000.

According to regulation 6 of the PMCALR, the PCFB shall assess the PCFL payable upon receiving the NOP or NOC and give a NOA in writing specifying the amount of PCFL. The PCFB can make the assessment notwithstanding no NOP or NOC has been given. If a contractor fails to give the NOP or NOC, a surcharge not exceeding twice the amount of the PCFL payable may be imposed and a NOS in writing shall be given by the PCFB.

According to section 37 of the PMCO, 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 or HK\$1,000 whichever is greater shall be imposed.

The time limits for the PMFB to make the assessment or imposing the surcharge under regulations 6E to 6H of the PMCALR are, whichever is the last of the following periods:

- (a) 2 years after the completion of all construction operations under the contract, or without term contract 2 years after the completion of the construction operations;
- (b) 2 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 PMFB to justify the making of the assessment, comes to its knowledge.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

### OVERVIEW

We are a main contractor in Hong Kong principally engaged in providing (i) substructure building works services; (ii) superstructure building works services; and (iii) repair, maintenance, alteration and addition ("RMAA") works services.

We were founded in 1998 by Mr. Ng, with funds from his personal financial resources and have been operating for over 17 years, during which time we have developed established relationships with our customers including Link Asset Management Limited (previously known as The Link Management Limited) ("LAML"), church and property developers. During the Track Record Period and up to the Latest Practicable Date, we completed 14 projects.

The following table outlines the key milestones in the history of our Group:

- |      |   |
|------|---|
| 1998 | Ching Lee Engineering was established, and our Group commenced the business of provision of renovation services   |
| 2003 | Ching Lee Construction was established with the aim to expand our Group's clientele   |
| 2005 | Ching Lee Engineering was registered as a general building contractor with the Building Authority   |
| 2006 | Ching Lee Engineering was awarded the ISO9001:2008 issued by Castco Certification Services Limited  |
| 2007 | Ching Lee Foundation was established with the aim to further expand our Group's business, in particular, in the provision of substructure building works services   |
| 2008 | Ching Lee Engineering was registered as a specialist contractor for site formation works and foundation works with the Building Authority   |
| 2009 | Ching Lee Engineering was included in the specialist list under the category of repair and restoration of historic buildings with the Development Bureau  |
| 2009 | Ching Lee Engineering was awarded the ISO14001:2004 issued by Castco Certification Services Limited   |
| 2012 | our Group commenced its first substructure and superstructure building works project for a church located at Tsim Sha Tsui, Hong Kong as a main contractor with the contract value of approximately HK\$137 million                     |
| 2015 | the aggregate number of employees of our Group reached 70   |
| 2015 | the annual turnover of our Group exceeded HK\$350 million   |
| 2015 | Ching Lee Engineering was named in the honor award for architecture as the main contractor in a project for a church located at Tsim Sha Tsui, Hong Kong issued by the American Institute of Architects to the architect of the project |

## **HISTORY, REORGANISATION AND GROUP STRUCTURE**

### **CORPORATE AND BUSINESS DEVELOPMENT HISTORY**

#### **Early history and establishment of Ching Lee Engineering**

Ching Lee Engineering was incorporated under the laws of Hong Kong on 27 November 1998 with limited liability. Ching Lee Engineering was primarily engaged in the provision of renovation services after its incorporation. In 2003, Ching Lee Engineering entered into a joint venture agreement with an Independent Third Party in the provision of construction services. In 2005, Ching Lee Engineering was registered as a general building contractor with the Building Authority, and since then in addition to renovation services, it also provides superstructure building works services. In 2008, Ching Lee was registered as a specialist contractor under the categories of site formation works and foundation works with the Building Authority, and since then its scope of services has further expanded to include the provision of substructure building works services.

On the date of its incorporation, two shares were issued and allotted to the two initial subscribers respectively, both Independent Third Parties, which were subsequently transferred to Mr. Ng at a consideration of HK\$1 and an Independent Third Party at a consideration of HK\$1, respectively on 7 April 1999. On the same day, Ching Lee Engineering issued and allotted 9,499 shares to Mr. Ng at a consideration of HK\$9,499 and 499 shares to the Independent Third Party at a consideration of HK\$499 respectively. On 31 May 1999, the Independent Third Party transferred his 500 shares in Ching Lee Engineering to Ms. Cheung Yuk Sheung, spouse of Mr. Ng, at a consideration of HK\$1.

As at 31 May 1999, Ching Lee Engineering was owned as to 95% by Mr. Ng and as to 5% by Ms. Cheung Yuk Sheung. On 26 September 2006, the 5% interests of Ching Lee Engineering registered under the name of Ms. Cheung Yuk Sheung were transferred to Mr. Ng. Upon completion of such transfer and until the Reorganisation, Ching Lee Engineering was wholly-owned by Mr. Ng who had contributed to the initial investment to Ching Lee Engineering by way of his personal financial resources.

#### **Establishment of Ching Lee Construction**

To further strengthen our Group's ability to source client and customer relations, in 2003, Mr. Ng, together with Mr. Lam and Mr. Lui further founded Ching Lee Construction. Ching Lee Construction was incorporated under the laws of Hong Kong on 26 May 2003 with limited liability. Ching Lee Construction was primarily engaged in the business of provision of building construction services. On the date of its incorporation, 6,500 shares, 2,500 shares and 1,000 shares were issued and allotted to Mr. Ng, Mr. Lui and Mr. Lam respectively. Each of Mr. Ng, Mr. Lui and Mr. Lam contributed 65%, 25% and 10% respectively of the initial investment to Ching Lee Construction by way of their respective personal financial resources. Since incorporation and until the Reorganisation, Ching Lee Construction was owned as to 65% by Mr. Ng, 25% by Mr. Lui and 10% by Mr. Lam.

#### **Establishment of Ching Lee Foundation**

To further expand our business, in particular, in the provision of substructure building works services, Ching Lee Foundation was established in 10 August 2007 by our Group together with two Independent Third Parties, both of whom had experience in foundation works. Mr. Ng became acquainted with the other two founders in 2006 through work. Ching Lee Foundation was incorporated under the laws of Hong Kong on 10 August 2007 with limited liability. On the date of its incorporation, 510 shares and 490 shares were issued and allotted to Ching Lee Construction and two Independent Third Parties respectively and Ching Lee Foundation was owned as to 51% by Ching Lee Construction and as to 49% by two Independent Third Parties. Ching Lee Construction contributed to its portion of the initial investment to Ching Lee Foundation by way of its internal financial resources. On 4 October 2013, Mr. Ng acquired the entire issued share capital of Ching Lee Foundation from Ching Lee Construction and the two Independent Third Parties at a total consideration of HK\$1,000 which was

## HISTORY, REORGANISATION AND GROUP STRUCTURE

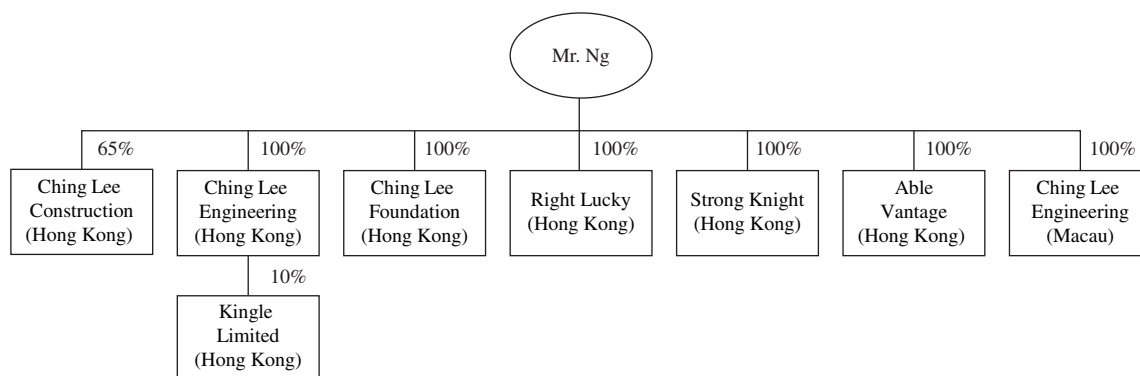
determined after arm’s length negotiation among the parties with reference to the par value of the shares of Ching Lee Foundation in view that at the material times Ching Lee Foundation incurred loss. Upon completion of the acquisition and until the Reorganisation, Ching Lee Foundation was wholly-owned by Mr. Ng.

### Establishment of Right Lucky

Right Lucky is an investment holding company incorporated under the laws of Hong Kong on 25 August 2005 with limited liability. On the date of its incorporation, one share was issued and allotted to an initial subscriber, who was an Independent Third Party, which was subsequently transferred to Mr. Ng on 4 October 2005. Upon completion of such transfer and until the Reorganisation, Right Lucky was wholly-owned by Mr. Ng who had contributed to the initial investment to Right Lucky by way of his personal financial resources. The main assets hold by Right Lucky are various landed properties situated in Hong Kong. For further information on the properties owned by our Group, please refer to the section headed “Business — Our properties — Real properties” of this document.

### REORGANISATION

The following chart sets out all the companies owned by Mr. Ng immediately prior to the Reorganisation:



### Incorporation of our Company and our intermediate holding company

#### *Our Company*

Our Company was incorporated as an exempted company under the laws of the Cayman Islands on 16 November 2015 with limited liability to act as the ultimate holding company of our Group. The initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On the same day, one nil-paid subscriber Share was issued and allotted to the subscriber, and such subscriber Share was transferred to Mr. Ng on the same day. The said transfer was properly and legally settled and completed on 16 November 2015.

#### *Ching Lee Group*

Ching Lee Group was incorporated under the laws of the BVI on 16 November 2015 with limited liability to act as the intermediate holding company of our Group. Ching Lee Group is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. Upon its incorporation, 100 shares were allotted and issued to Mr. Ng. After the said allotment and issue, Ching Lee Group became wholly-owned by Mr. Ng.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

### Acquisition of operating subsidiaries by Ching Lee Group

#### *Ching Lee Engineering*

Immediately prior to the Reorganisation, Ching Lee Engineering was wholly-owned by Mr. Ng. On 8 December 2015, Ching Lee Group acquired 3,700,000 shares of Ching Lee Engineering (representing its entire issued share capital) from Mr. Ng, in consideration of which Ching Lee Group allotted and issued 100 fully paid shares to Mr. Ng. Upon completion of the said acquisition, Ching Lee Engineering became a wholly-owned subsidiary of Ching Lee Group.

#### *Ching Lee Construction*

Immediately prior to the Reorganisation, Ching Lee Construction was owned as to 65% by Mr. Ng, 25% by Mr. Lui and 10% by Mr. Lam. On 15 December 2015, Mr. Ng acquired (a) 2,500 shares of Ching Lee Construction (representing 25% of its entire issued share capital) from Mr. Lui at a total consideration of HK\$427,724 and (b) 1,000 shares of Ching Lee Construction (representing 10% of its entire issued share capital) from Mr. Lam at a total consideration of HK\$171,090. The consideration was determined after arm's length negotiation among Mr. Ng, Mr. Lui and Mr. Lam with reference to the fair value of the 35% interest of Ching Lee Construction. On 15 December 2015, Ching Lee Group subsequently acquired 10,000 shares of Ching Lee Construction (representing its entire issued share capital) from Mr. Ng, in consideration of which Ching Lee Group allotted and issued 100 fully paid shares to Mr. Ng. Upon completion of the said acquisition, Ching Lee Construction became a wholly-owned subsidiary of Ching Lee Group.

#### *Ching Lee Foundation*

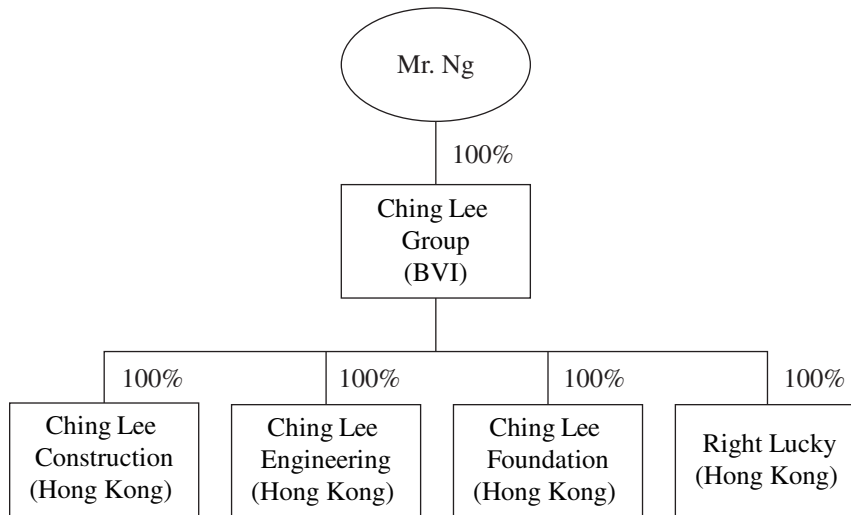
Immediately prior to the Reorganisation, Ching Lee Foundation was wholly-owned by Mr. Ng. On 8 December 2015, Ching Lee Group, acquired 1,000 shares of Ching Lee Foundation (representing its entire issued share capital) from Mr. Ng, in consideration of which Ching Lee Group allotted and issued 100 fully paid shares to Mr. Ng. Upon completion of the said acquisition, Ching Lee Foundation became a wholly-owned subsidiary of Ching Lee Group.

#### *Right Lucky*

Immediately prior to the Reorganisation, Right Lucky was wholly-owned by Mr. Ng. On 8 December 2015, Ching Lee Group acquired one share of Right Lucky (representing its entire issued share capital) from Mr. Ng, in consideration of which Ching Lee Group allotted and issued 100 fully paid shares to Mr. Ng. Upon completion of the said acquisition, Right Lucky became a wholly-owned subsidiary of Ching Lee Group.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

Upon completion of the acquisitions of the operating subsidiaries by Ching Lee Group as mentioned above, the corporate structure of Ching Lee Group was as follows:

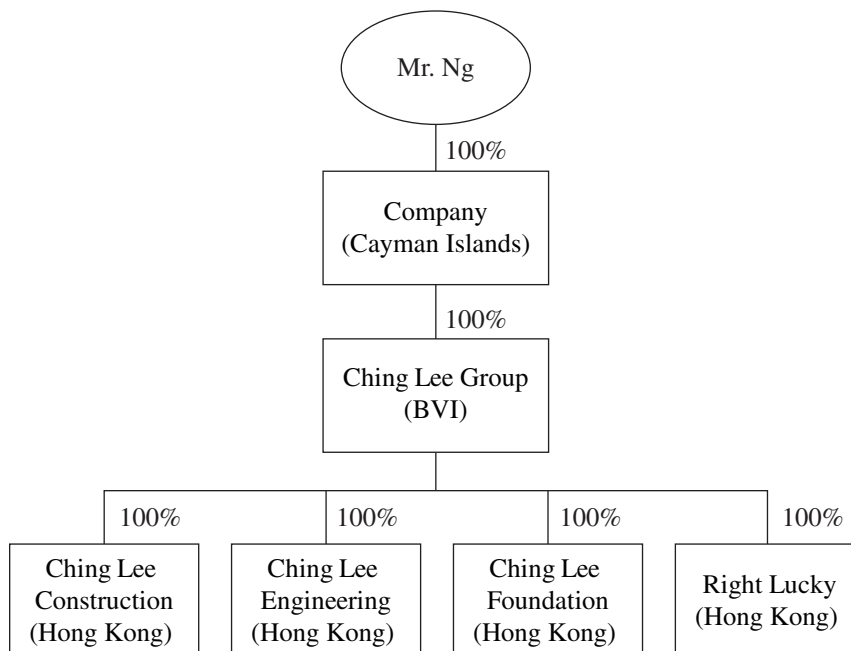


All of the abovementioned acquisitions pursuant to the Reorganisation have been properly and legally settled and completed.

### Acquisition of Ching Lee Group by our Company

On 15 December 2015, our Company acquired the entire issued share capital of Ching Lee Group from Mr. Ng, in consideration of which the Company credited as fully paid at par the one nil-paid subscriber Share held by Mr. Ng and allotted and issued 99 fully paid up new Shares to Mr. Ng.

The corporate structure of our Group immediately following the acquisition of Ching Lee Group by our Company was as follows:





## HISTORY, REORGANISATION AND GROUP STRUCTURE

### Acquisition of the Company by JT Glory

On 15 December 2015, JT Glory, a company wholly-owned by Mr. Ng, acquired the entire issued share capital of the Company from Mr. Ng, in consideration of which JT Glory allotted and issued 98 fully paid shares to Mr. Ng. Upon completion of the said acquisition, the Company became wholly-owned by JT Glory.

### Excluded businesses

In preparation of the [REDACTED], we decided to streamline our core business, and we excluded Kingle Limited, Strong Knight, Able Vantage and Ching Lee (Macau) from our Group during the course of the Reorganisation.

#### *Kingle Limited*

Kingle Limited is a company incorporated under the laws of Hong Kong on 8 July 1980 with limited liability. Prior to the Reorganisation, Kingle Limited was owned as to 10% by Ching Lee Engineering and 90% by an Independent Third Party. On 15 December 2015, Ching Lee Engineering transferred the 10% interest in Kingle Limited held by it to Mr. Ng at a consideration of HK\$754,607 with reference to the fair value of the 10% interest of Kingle Limited.

Kingle Limited currently has no operation except for making and receiving remaining payments for joint construction projects of Ching Lee Engineering and the Independent Third Party. The construction projects had been completed in prior years. As (i) the joint construction projects of Ching Lee Engineering and the Independent Third Party had been completed, (ii) our Group currently does not have any joint construction project, (iii) Ching Lee Engineering only held 10% of Kingle Limited and had no control of its board of directors, (iv) Kingle Limited currently has no operation and is expected to continue to be dormant, and (v) Kingle Limited does not hold any licence to conduct building construction works in Hong Kong, the principal activities of Kingle Limited and those of our Group are dissimilar and Kingle Limited would not be in competition with our Group. Accordingly, Kingle Limited was not included in our Group.

#### *Strong Knight Limited*

Strong Knight Limited (“**Strong Knight**”) is a company incorporated under the laws of Hong Kong on 8 February 2010 with limited liability and is wholly-owned by Mr. Ng.

Strong Knight is an investment holding company which does not have any other business or operation. Strong Knight was therefore not included in our Group.

#### *Able Vantage Guesthouse Company Limited*

Able Vantage Guesthouse Company Limited (“**Able Vantage**”) is a company incorporated under the laws of Hong Kong on 1 February 2013 with limited liability and wholly-owned by Mr. Ng.

Able Vantage is principally engaged in the operation and management of guesthouses in Hong Kong. As the business of Able Vantage is different from that of our Group, Able Vantage was not included in our Group.

#### *Ching Lee (Macau)*

Ching Lee Engineering Limited (“**Ching Lee (Macau)**”) is a company incorporated under the laws of Macau on 28 March 2007 with limited liability and is owned as to 96% by Mr. Ng and as to 4% by Ms. Cheung Yuk Sheung, spouse of Mr. Ng.

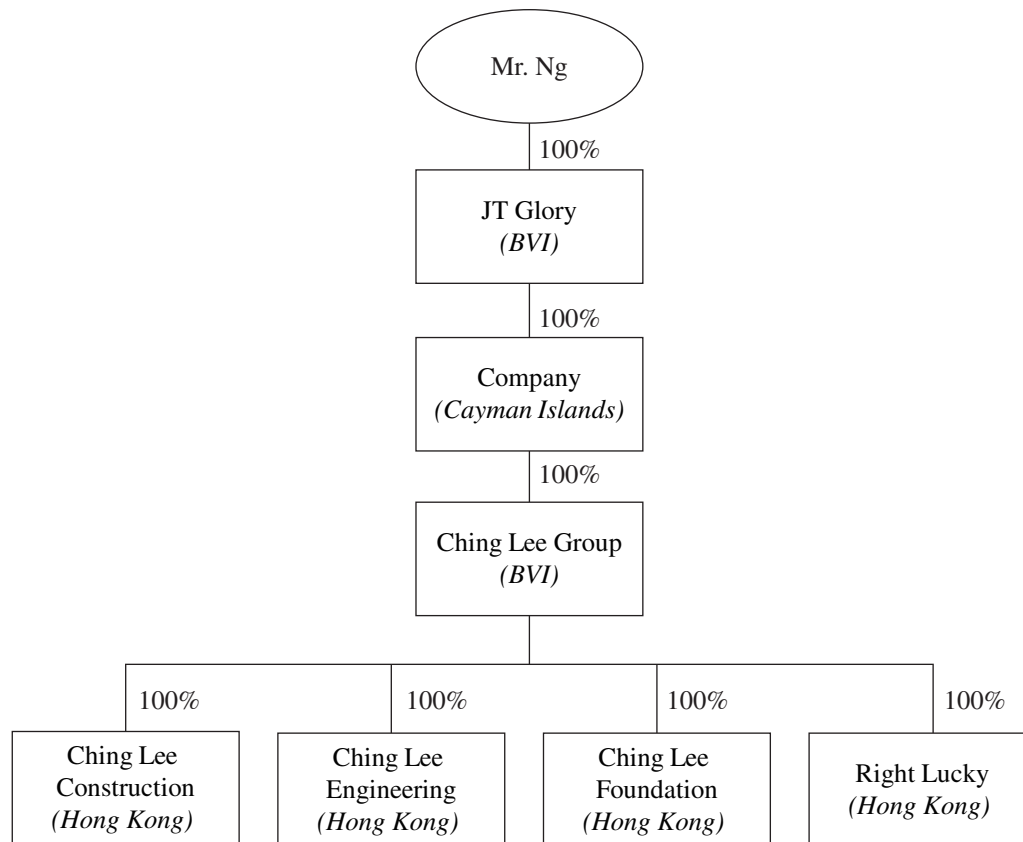
## HISTORY, REORGANISATION AND GROUP STRUCTURE

Ching Lee (Macau) has obtained and still holds a construction licence which permits it to perform construction works in Macau but has no operation and been dormant since its incorporation. As our Group only holds licences to conduct building construction works in Hong Kong and thereby will only engage in the provision of building construction services in Hong Kong, Ching Lee (Macau) falls outside the business model of our Group and therefore was not included in our Group.

With a view to distinguish Ching Lee (Macau) from our Group, an application for change of company name to Ching Wah Engineering Limited (正華工程有限公司) was filed with the Macau Commercial Registry on 18 December 2015.

### Shareholding structure immediately after the Reorganisation

The following chart sets out our corporate structure immediately after the Reorganisation but prior to the Capitalisation Issue and the [REDACTED]:



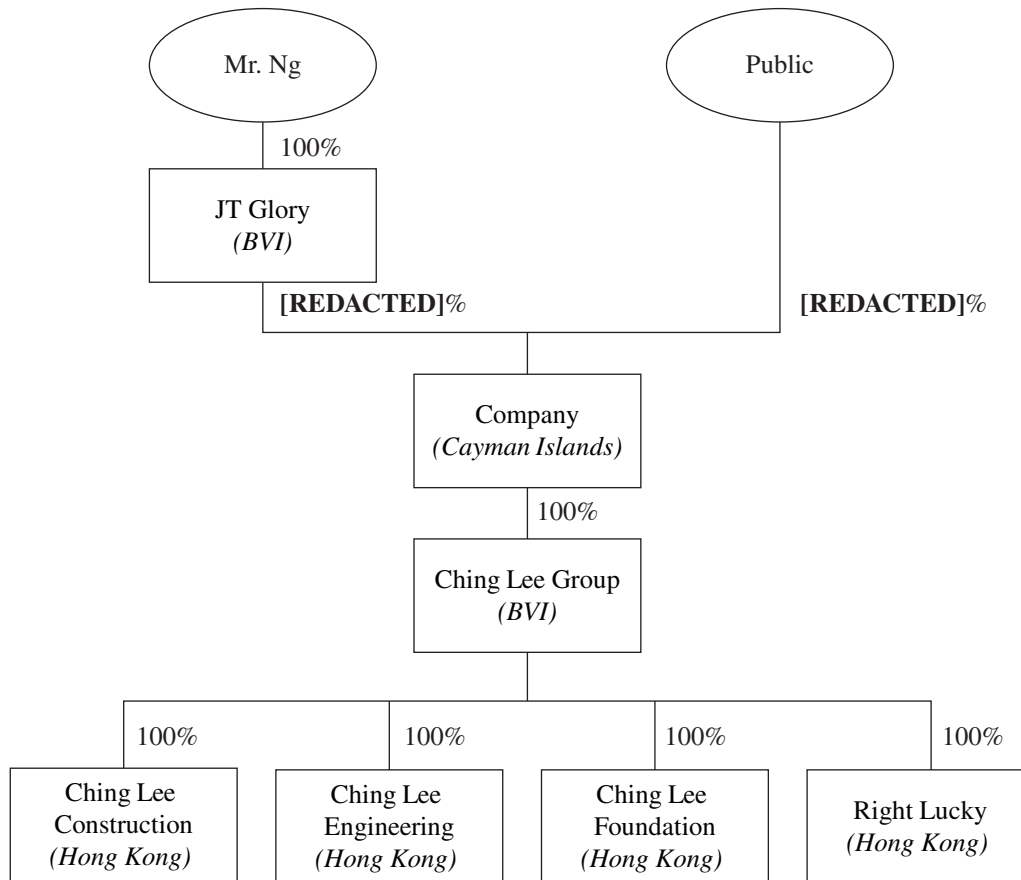
### Capitalisation Issue

Conditional on the share premium account of our Company being credited with the proceeds from the [REDACTED], HK\$[REDACTED] will be capitalised from the share premium account of our Company and applied in paying up in full [REDACTED] new Shares for the allotment and issuance to the existing shareholder of our Company, namely JT Glory, on or before [REDACTED].

## HISTORY, REORGANISATION AND GROUP STRUCTURE

### Shareholding structure immediately after completion of the Capitalisation Issue and [REDACTED]

The following chart sets out the shareholding structure of our Group immediately after the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be issued pursuant to the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme):



## BUSINESS

### BUSINESS OVERVIEW

We are a main contractor in Hong Kong principally engaged in providing (i) substructure building works services; (ii) superstructure building works services; and (iii) repair, maintenance, alteration and addition (“**RMAA**”) works services. The following table sets forth the breakdown of our revenue by segment during the Track Record Period:

	Year ended 31 March				Six months ended	
	2014		2015		30 September 2015	
	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>
Substructure building works services	75,280	37.6	131,520	34.9	36,913	23.8
Superstructure building works services	31,597	15.8	221,009	58.6	115,687	74.7
RMAA works services	<u>93,306</u>	<u>46.6</u>	<u>24,827</u>	<u>6.5</u>	<u>2,309</u>	<u>1.5</u>
Total:	<u>200,183</u>	<u>100.0</u>	<u>377,356</u>	<u>100.0</u>	<u>154,909</u>	<u>100.0</u>

All our projects during the Track Record Period and up to the Latest Practicable Date were located in Hong Kong.

During the Track Record Period, we undertook projects in both public and private sectors. According to the Ipsos Report, public sector projects refer to projects commissioned by the Government (including the Development Bureau, Civil Engineering and Development Department, Drainage Services Department, Environmental Protection Department, Highways Department, Architectural Services Department, Water Services Department and Housing Authority), the MTR Corporation Limited and the Airport Authority, while private sector projects refer to projects commissioned by individuals, privately owned property development companies and commercial enterprises. During the Track Record Period, our top five customers include Link Asset Management Limited (previously known as The Link Management Limited) (“**LAML**”), church and property developers. The following table sets forth the breakdown of our revenue by public and private sectors during the Track Record Period:

	Year ended 31 March				Six months ended	
	2014		2015		30 September 2015	
	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>
Public sectors	10,104	5.0	955	0.3	—	—
Private sectors	<u>190,079</u>	<u>95.0</u>	<u>376,401</u>	<u>99.7</u>	<u>154,909</u>	<u>100.0</u>
Total:	<u>200,183</u>	<u>100.0</u>	<u>377,356</u>	<u>100.0</u>	<u>154,909</u>	<u>100.0</u>

## **BUSINESS**

We acted as the main contractor in all our projects during the Track Record Period and up to the Latest Practicable Date and delegated works to our subcontractors under supervision of and management by our project team. Our role as a main contractor generally includes overall project management and supervision of works conducted by our subcontractors to ensure their conformity to contractual specification and that projects are completed on time and within budget. During the Track Record Period, besides our subcontractors, our top five suppliers also include construction materials suppliers.

As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$519.8 million. These on-going projects are expected to be completed by the year ending 31 March 2017.

### **OUR COMPETITIVE STRENGTHS**

We believe that our competitive strengths are as follows:

#### **We are an established main contractor in Hong Kong**

We were founded in 1998 and have been operating for over 17 years. During the Track Record Period and up to the Latest Practicable Date, we completed 14 projects. As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$519.8 million. These on-going projects are expected to be completed by the year ending 31 March 2017. For details of our projects, please refer to the paragraph headed "Business — Our projects" in this document.

Based on our internal records, for each of the two years ended 31 March 2015 and the six months ended 30 September 2015, we submitted 51, 41 and 27 tenders or quotations to our customers (excluding quotations in relation to variation orders and supplemental orders), respectively and had been awarded 9, 4 and 6 projects. For details of our success rates, please refer to the paragraph headed "Business — Business model and our operation — Tender selection" in this document.

In view of our long operating history, reputation and proven track record, our Directors consider that we are an established main contractor in Hong Kong.

#### **We provide extensive services**

Our services range from substructure building works, superstructure building works to RMAA works. During the Track Record Period, the scope of our substructure building works projects consisted of demolition and hoarding, site formation and foundation works, the scope of our superstructure building works projects consisted of development and redevelopment of church, educational, residential, and commercial buildings, while the scope of our RMAA works consisted of improvement, fitting-out works, renovation works, restoration works and external works.

Comparing with main contractors focusing on providing particular scope of services, our Directors consider that our capability and proven track record of providing extensive services allow us to cater different needs of our customers in different stages of building development, and increase our opportunity being invited to submit tenders or quotations, thereby increasing our chance to be awarded with new projects.

#### **We have established relationships with our top five customers**

As at the Latest Practicable Date, we have established business relationships with our top five customers for a period ranging from one to four years.

## BUSINESS

One of our top five customers, Customer I, had been working with us for more than two years as at the Latest Practicable Date, who awarded us a contract to provide substructure building works services for a building development located at Portland Street, Mongkok, Hong Kong in 2013, also awarded us a contract to provide superstructure building works services with contract sum amounted to approximately HK\$99.8 million for the same building development in 2015 after the previous contract was practically completed in 2014.

Further, one of our top five customers, LAML, had been working with us for more than four years as at the Latest Practicable Date, who awarded us two contracts to provide RMAA works services for a shopping centre located at Tai Wai, Shatin, Hong Kong in 2011, and a market block and commercial complex located at Tuen Mun, Hong Kong in 2013, all of which had been practically completed by 2012 and 2014 respectively. In 2015, such customer awarded us a contract to provide RMAA works services for a commercial centre located at Tuen Mun, Hong Kong with contract sum amounted to approximately HK\$53.6 million.

In addition, one of our top five customers, Customer E, had been working with us for more than three years as at the Latest Practicable Date, who awarded us a contract to provide substructure building works services for a residential development located at Stanley, Hong Kong in 2012, also awarded us a contract to provide superstructure building works services with contract sum amounted to approximately HK\$71.3 million for the same residential development in 2014 after the previous contract was practically completed in 2014.

Besides our top five customers, a school, had been working with us for more than five years as at the Latest Practicable Date, who awarded us three contracts to provide superstructure building works services and RMAA works services from 2010 to 2012, all of which had been practically completed by 2012. In 2015, such school awarded us a contract to provide superstructure building works services for the redevelopment of its new teaching block located at Wong Ma Kok Road, Stanley, Hong Kong with contract sum amounted to approximately HK\$98.8 million.

According to the Ipsos Report, there is a high tendency for the Government and private developers to cooperate with contractors which are capable of providing high quality works and with a solid track record. Further, main contractors with established relationships with major private developers will definitely have a better chance of winning private contracts. In addition, private developers generally have their own preference list of contractors for tender invitation. As a result, maintaining good and sustainable relationships with major private developers is an advantage to main contractors in being included in the preference list and winning private tenders.

In view of the aforesaid, our Directors consider that our long term relationships with our top five customers also demonstrate our capability in providing high quality works and completing projects on time and within budget, which enable us to maintain our clientele base and attract new customers, and cannot be easily replicated by our competitors.

### **We have established relationships with our top five suppliers**

During the Track Record Period, our top five suppliers consisted of subcontractors and construction materials suppliers. As at the Last Practicable Date, our top five suppliers had been working with us for a period ranging from approximately one to six years. Our Directors believe that our established relationships with our top five suppliers have been and will continue to be our valuable assets enabling us to take up projects of various scales and service scopes and fulfil our customers' requirements.

## BUSINESS

### **We have an experienced and dedicated management team**

We have an experienced and dedicated management team with extensive knowledge of the construction industry and project management experience in the services that we provide. Our executive Directors and members of our senior management have an average industry experience of greater than approximately 15 years. Most integral to the success of our Group is Mr. Ng, our founder, Chairman, chief executive officer and executive Director, who has over 27 years of experience in the construction main contracting industry and has facilitated our Group to establish long term relationships with our customers and suppliers. Mr. Lui and Mr. Lam, our executive Directors, have over 15 years of experience in the construction main contracting industry in Hong Kong. For details of the profile of our management team, please refer to the section headed "Directors, Senior Management and Staff" in this document.

Under the leadership of our management team, we have built up our capacity, expanded our scope of services and enhanced our market presence. The broad know-how and industry knowledge acquired and accumulated over the years by our management team have and will continue to be beneficial to our business and prospects.

### **BUSINESS STRATEGIES**

Our business objective is to achieve sustainable growth in our business in Hong Kong by implementing the following business strategies:

#### **To consolidate and expand our works capacity in Hong Kong**

According to the Ipsos Report, it is expected that the gross output value of the substructure building works industry in Hong Kong will have a growth from around HK\$24.5 billion by the end of 2015 to around HK\$51.8 billion in 2019, at a CAGR of about 20.6% due to the expected increase in the demand for residential and commercial buildings. Further, as the Government has taken initiatives to increase the housing supply in Hong Kong, it is expected that the gross output value of the superstructure building works industry in Hong Kong will have a growth from around HK\$99.8 billion by the end of 2015 to around HK\$188.2 billion in 2019, at a CAGR of about 17.2%.

In addition, according to the Ipsos Report, urban renewal projects on ageing buildings due to limited supply of new land to meet the growing demand for residential and non-residential buildings in Hong Kong, trend of restoration of high-end residential buildings due to increase of value and rental of residential flats in recent years, and revitalisation of industrial buildings as encouraged by the Government to accommodate the growing demand, will facilitate the growth of RMAA works in Hong Kong. It is expected that the gross output value of the RMAA works industry in Hong Kong will increase from around HK\$54.6 billion in 2015 to around HK\$58.4 billion in 2019, at a CAGR of around 1.7% according to the Ipsos Report.

With our proven track record in the construction main contracting industry in Hong Kong, we believe that we are well positioned to expand our market share and maintain our active status in the construction main contracting industry in Hong Kong. In view of our potential undertaking of more projects in the future, we need to reserve more capital to satisfy our potential customers' requirement for surety bond. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED] within two years after the [REDACTED].

In order to increase our capacity to cater with more projects, we also plan to expand our scale by continuing to maintain and enhance our workforce and machinery.

## BUSINESS

Our Directors consider that a team of diligent workforce with appropriate knowledge and experience in undertaking various types of works are critical to our continuing success. In this regard, we plan to recruit additional staff, including one project manager, one electrical and mechanical professional, one foreman, one assistant foreman, one leveller, one assistant leveller and one quantity surveyor, in the next two years. With the expansion of our workforce, we also plan to recruit one registered safety officer, one assistant compliance officer and one account manager, in the next two years, to maintain and strengthen our internal control and occupational health and safety measures. We also plan to arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses from time to time in the next two years to strength their technical knowledge and safety awareness. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED] within two years after the [REDACTED].

We also plan to acquire additional machinery so as to enhance our Group's working capacity. We plan to acquire one set of crawler drills in the next two years. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED] within two years after the [REDACTED].

Our Directors believe that by expanding our scale of operation, we will be able to (i) undertake projects of a larger scale; (ii) achieve better coordination in the deployment of machinery and labour forces in order to optimise our operational efficiency; and (iii) have additional manpower to further strengthen our quality and work safety assurance which is of utmost importance to our Group's competitiveness in the construction main contracting industry in Hong Kong.

Further, we plan to reduce our gearing ratio by repaying part of an outstanding bank borrowing and hire purchase after the [REDACTED]. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED].

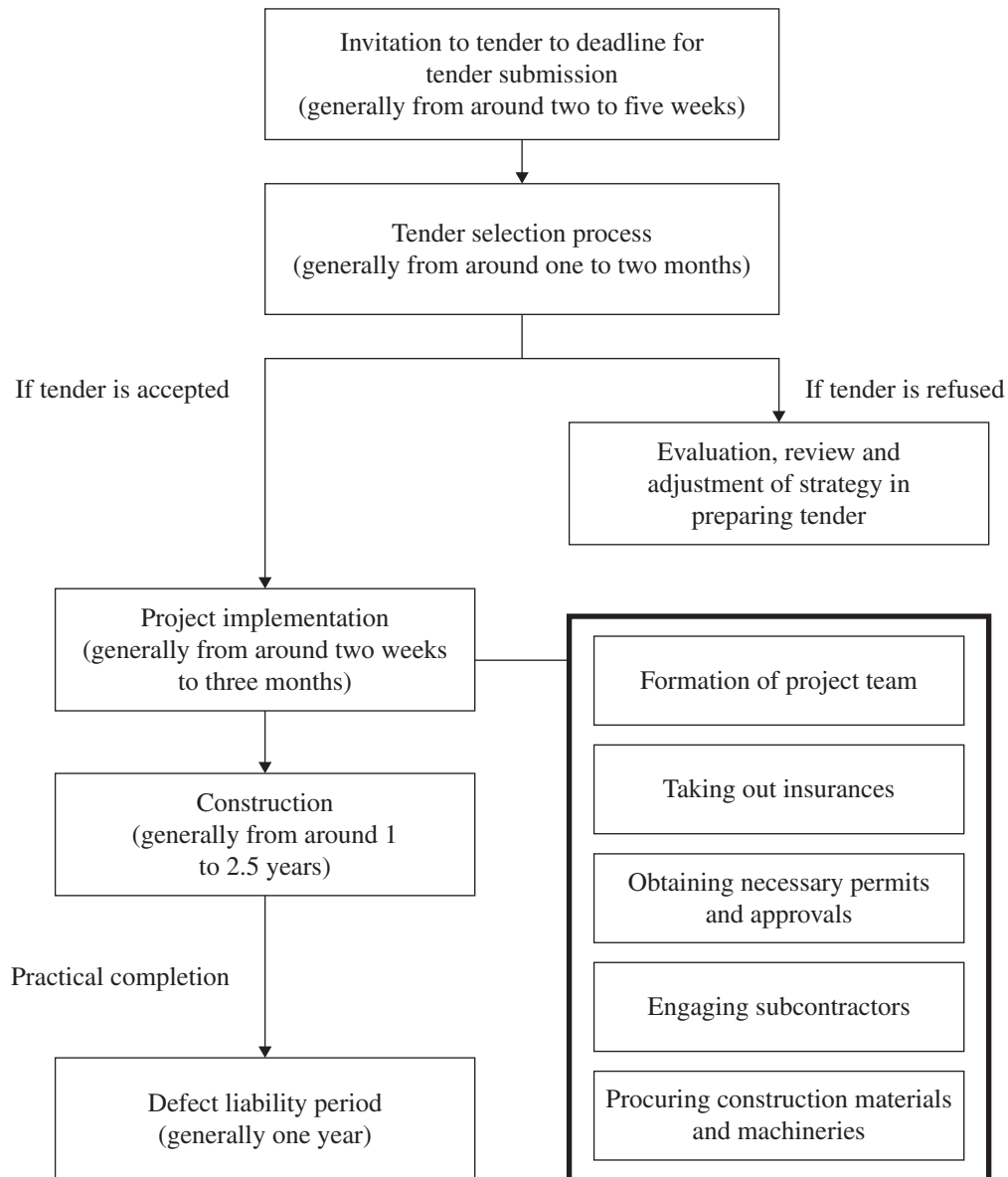
For further details in relation to our use of proceeds to implement the plans set out above, please refer to the section headed "Future plans and use of proceeds" in this document. As at the Latest Practicable Date, we have not identified any acquisition targets.



## BUSINESS

### BUSINESS MODEL AND OUR OPERATION

The following pattern illustrates the work flow of our typical project:



## **BUSINESS**

### **Invitation to tender and preparation of tender**

According to the Ipsos Report, the tender process for construction projects is standardised. When the employers intend to engage a main contractor for a construction project, they would issue invitation to tender to numerous candidate main contractors. Private developers generally have their own preference list of contractors for tender invitation. After receiving the invitation to tender, the candidate main contractors would prepare and submit their tenders by the deadline. All these tender submissions would be evaluated and vetted by the employers and they would conduct interviews and negotiations with candidate main contractors before awarding the tender to the appropriate main contractor. After the main contractor has been awarded with the tender, they would subcontract various parts of the construction works to the subcontractors. Similarly, candidate subcontractors would submit tenders or quotations by the deadline which would be evaluated by the main contractor, before awarding the subcontracts to the appropriate subcontractors.

In general, the invitation to tender is by way of letter. If we accept the invitation, tender package is delivered to us consisting of conditions of tender, specifications, schedule of rates and drawings. The schedule of rates is to itemise the works and quantities. Our tendering department is responsible to prepare the tender submission.

We adopt a cost-plus pricing model for setting our tender price. We estimate the cost by considering direct labour cost, subcontracting cost, construction material cost and insurance cost. During the preparation of tender submission, we may obtain preliminary quotations from our construction materials suppliers, subcontractors and insurers to facilitate our estimation.

We would conduct site visit(s) to understand the site conditions and constraints. Factors which would affect the tender price, including geographical conditions, proximity to concrete plants, proximity to schools and residential properties and proximity to old tenements, would be considered.

A preliminary assessed project cost would be provided to our executive Directors to consider. Our executive Directors would also determine the mark-up margin. In determining the mark-up margin, we target to strike a balance between making a competitive tender price against our competitors and maintaining a reasonable gross profit margin of the project, and would take into account various factors including pricing trends of labour and material cost, relationship with our customers and the professional parties already on board in the project and risk factors. Our tendering department would then fill in and revise the schedule of rates and prepare tender submission documents.

Depending on the tender submission requirements, the tender submission generally consists of tender price, schedule of rates, our previous audited accounts and latest management accounts, details of the proposed subcontractors, job reference of similar project nature with particulars, schedules of equipment materials, organisation chart with resume of proposed project team, preliminary programme and time frame, site safety plan, method statements, logistic planning, and noise and dust abatement measures.

Depending on the complexity and scale of the project, it generally takes around two to five weeks for us to prepare and make a tender submission. Our executive Directors must approve and sign the tender submission before it is made.

### **Tender selection**

After tender submission, we would attend interview with our customer, respond to our customer's queries and/or negotiate with our customer about the price and/or contract terms, which are responsible by our executive Directors. If we are selected by our customer to "win" the contract, a letter of acceptance would be issued to us. The tender selection process generally takes around one to two months.

## BUSINESS

We keep soft copy of and assign a reference number for every tender we submit, irrespective of its results. Such arrangement generally facilitates us to carry out evaluation, review and adjustment of strategy in preparing future tender. The following table sets forth our success rates during the Track Record Period based on our internal records:

	Year ended 31 March						Six months ended 30 September 2015		
	2014		Success rate (%)	2015		Success rate (%)	Number of tenders	Number of successful tenders	Success rate (%)
<i>Number of tender submissions</i>	<i>Number of successful tenders</i>	<i>Number of tender submissions</i>		<i>Number of successful tenders</i>					
Substructure building works services	11	3	27	9	0	0	9	2	22
Superstructure building works services	7	4	57	7	2	29	2	1	50
RMAA works services	33	2	6	25	2	8	16	3	19

### **Project implementation**

#### *Formation of project team*

Once we are awarded with a project, we will form a project team which normally comprise of a project manager, a general foreman, foremen, a quantity surveyor, registered safety officers and safety supervisors. The size of our project team depends on the complexity and scale of the project, and any additional requirements requested by our customer. Our project team is responsible to handle the project assigned to it to ensure the works are in conformity to the contractual specifications and the project is completed on time and within budget. It will also regularly report to our executive Directors the project progress and status.

#### *Engaging subcontractors*

We would confirm our engagement with our subcontractors after we are awarded with a project.

We generally subcontract various parts of the project to our subcontractors in Hong Kong. During the Track Record Period, the works we subcontracted to our subcontractors included demolition, hoarding, concreting, painting, redecoration and roofing, which were generally labour intensive or required specific skill sets. Further, in some projects, there were certain works, which generally required specific skill sets including lifts and escalators installation and electrical and mechanical works, required by our customers to be carried out by the nominated subcontractors under the contract.

## BUSINESS

We, as main contractor, will oversee the carrying out of the works by our subcontractors in order to ensure the works completed are in conformity to contractual specification and that projects are completed on time and within budget. With the engagement of subcontractors, we are able to focus on quality control and overall project management and supervision.

For further details on our selections of subcontractors and our subcontracting arrangement, please refer to the paragraph headed “Business — Our suppliers — Subcontractors” in this document.

### *Obtaining necessary permits and approvals*

Our Group, as a main contractor, is required to comply with the applicable environmental laws and regulations in Hong Kong in carrying out the project. Our project team is responsible for perusing the specifications set out in the contract and if necessary, apply to the relevant Government departments to obtain the requisite permits and approvals in relation to air pollution, waste disposal, noise pollution and others pursuant to environmental protection requirements before commencement of the construction works. For further details, please refer to the paragraph headed “Regulatory overview — B. Laws and regulations in relation to Environmental protection” in this document.

### *Procuring construction materials and machineries*

In general, our subcontractors are required to equip themselves with the necessary construction materials and machineries to complete the works subcontracted to them, the cost of which is generally included into the subcontract price.

Depending on the scope of service provided by our subcontractors, some of them may not equip with the necessary machineries and/or we need to procure certain construction materials for them.

The construction materials we purchase for our subcontractors include concrete and steel. The construction materials we purchased are generally sent to the site directly by our suppliers. We do not keep any construction materials as inventory because they are procured on a project-by-project basis in accordance with the specifications.

For those subcontractors that we need to provide them machineries, we either provide them our own machineries or machineries leased from our suppliers (as agreed and included in the subcontract price). For details on our own machinery, please refer to the paragraph headed “Business — Our machinery” in this document.

### *Taking out insurances*

In order to comply with the relevant laws and regulations in Hong Kong and the requirements under the contract, we, as the main contractor, are required to take out the employees’ compensation insurance, contractor’s all risks and third party liability insurance, insurance for the construction plant and equipment brought onto the site for the contract. For further details, please refer to the paragraph headed “Business — Insurance” in this document.

## BUSINESS

### Construction

#### *Progress payment and certification*

Among 14 projects completed during the Track Record Period and up to the Latest Practicable Date and 12 on-going projects as at the Latest Practicable Date, save and except one project, we did not receive any sums as prepayment from our customers.

We receive progress payment from our customers pursuant to the contract. In general, for every one month, we prepare a statement setting out our estimate of the value of the works completed in the preceding month and submit the statement together with the payment application to our customers. Upon receiving such statement with our payment application, the architect and/or quantity surveyor of our customer shall assess our estimation and issue an interim certificate certifying the works completed in the preceding month. In general, it takes around 14 days from the date of our payment application to issue the interim certificate. Our customer will then make payment based on the certified amount less any retention money. Payments will normally be made by our customers within 30 days from the date of the issuance of the interim certificate.

The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount until the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.

Payment is usually made by way of cheque or bank transfer in Hong Kong dollars.

The above mechanism is also similar to our progress payment to our subcontractors. On or before the fifteenth (15th) day of each calendar month, our subcontractors shall submit payment application to us, which shall contain the quantity of completed works certified by our foreman together with receipts and/or records showing due payment of salary to their employees and the employees of their sub-subcontractors (if any).

Upon receiving such payment application, we shall assess and certify the amount to be paid and make payment based on the certified amount less any retention money on the thirtieth (30th) day of the same calendar month.

#### *Re-measurement and variation order*

In general, our contract sum is a fixed price lump sum and shall be inclusive of all the costs and expenses and profit that will be or are necessary to be incurred by us to complete our obligations under the contract.

In some projects, the relevant schedule of rates contains provisional items which refer to estimations of the required quantities for the execution of work or the provision of materials or goods and are not conclusive and final and are subject to adjustment, increase, reduction or cancellation. If they are required during the construction, such work or the provision of materials or goods shall be re-measured for the actual quantities and paid for the rate agreed under the relevant schedule of rates. If they are not required during the construction, the relevant prices included in the contract sum shall be deducted accordingly.

Besides, our customer or its architect may issue instructions ordering a variation to the works under the contract, which could include alteration or modification of the design, quality or quantity of the works, addition, omission or substitution of any works, and alteration of the kind or standard of any of the materials or goods to be used for the works.

## BUSINESS

If the work for variation is the same as or similar in character to and is carried out under same or similar conditions to work prescribed in the contract, the valuation of the same shall be made in accordance with the prices in the schedule of rates under the contract. If there is no equivalent or similar contract unit rate in the schedule of rates for valuation, we are required to submit new unit rates with breakdowns for approval.

Adjustment to contract sum is generally not available for rises or falls in the cost of labour and materials or exchange rates of currencies.

### *Practical completion, extension of time and duration of our projects*

Upon the fulfilment of all requisite acknowledgement(s)/consent(s)/certificate(s) on completion of works for the said premises have been issued by the relevant Government authorities and the works under the contract have been completed to the satisfaction of our customer, our customer will issue a practical completion certificate. On the issue of the practical completion certificate, part of the retention money being retained will be released to us and the surety bond, if any, will also be released.

Actual duration of our projects, which refer to the period from date of commencement as referred to in the contract to the date of practical completion certificate, are affected by a wide range of factors, including but not limited to project scale, technical complexity, conditions of the site, input of machineries and labour, expectation of our customers and amount of variation orders.

The project duration and completion time of a project is usually provided in the relevant contract. In general, failure to complete on time will result in liquidated damages against us calculated according to an agreed daily rate under the contract. Nevertheless, if the progress of the works is likely to be delayed due to certain situations as supinated under the contract such as force majeure, variation orders and discovery of antiquities on the site, our customers shall estimate the length of the delay and make a fair and reasonable extension of time for completion of the works.

During the Track Record Period, the average duration of our substructure building works projects, superstructure building works projects, and RMAA works projects completed was about 18 months, 13 months and 9 months, respectively.

### *Defect liability period and final payment*

We are required to make good any defects at our own cost within the defect liability period, which is generally 12 months, after the practical completion. After we have made good the defect to our customer's satisfaction, the residue of the retention money being retained will be released to us. In general, we impose a back-to-back defect liability period on our subcontractors.

In general, within three months after the expiry of the defect liability period and making good the defects, our customer will issue the final certificate to state the sum of all amounts previously certified and the contract sum as adjusted pursuant to the contract. Such difference shall be settled by our customer or us, as the case may be, within 14 days from the final certificate date.

## **OUR PROJECTS**

During the Track Record Period and up to the Latest Practicable Date, we have completed 14 projects.

As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$519.8 million. These on-going projects are expected to be completed by the year ending 31 March 2017.

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The following three tables summarise our projects with recognised revenue of more than HK\$20 million to us for each of the two years ended 31 March 2015 and the six months ended 30 September 2015 in descending order:

### For the year ended 31 March 2014

Rank	Project	Customer	Sector	Type	Status as at the Latest Practicable Date <sup>(Note 2)</sup>	Amount of revenue recognised for the year ended 31 March 2014 HK\$'000	% of our total revenue for the year ended 31 March 2014
1	P1	LAML	Private	RMAA works services for a market block and commercial complex located at Tuen Mun, Hong Kong	Completed	81,614	40.8%
2	P2	Customer B	Private	Substructure building works services and superstructure building works services for a church located at Tsim Sha Tsui, Hong Kong	Completed	48,469 <sup>(Note 3)</sup>	24.2% <sup>(Note 3)</sup>
3	P3	Customer E	Private	Substructure building works services for a residential development located at Stanley, Hong Kong	Completed	20,156	10.1%
Total <sup>(Note 1)</sup> :						150,239	75.1%

*Notes:*

1. The figures and percentages above may not add up to the total due to rounding.
2. Project described as "completed" means that the relevant project has achieved practical completion.
3. Among our revenue recognised in this project for the year ended 31 March 2014, approximately HK\$21.9 million and HK\$26.5 million were attributable to substructure building works services and superstructure building works services respectively.

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### For the year ended 31 March 2015

Rank	Project	Customer	Sector	Type	Status <sup>(Note 2)</sup>	Amount of revenue recognised for the year ended 31 March 2015 HK\$'000	% of our total revenue for the year ended 31 March 2015
1	P2	Customer B	Private	Substructure building works services and superstructure building works services for a church located at Tsim Sha Tsui, Hong Kong <sup>(Note 3)</sup>	Completed	66,910 <sup>(Note 3)</sup>	17.7% <sup>(Note 3)</sup>
2	P4	Customer C	Private	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	On-going	53,413	14.2%
3	P5	Customer A	Private	Superstructure building works for a residential development located at Castle Peak, New Territories, Hong Kong	Completed	53,187	14.1%
4	P6	Customer D	Private	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	On-going	48,052	12.7%
5	P7	Customer A	Private	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	On-going	23,656	6.3%
6	P8	Customer E	Private	Superstructure building works services for a residential development located at Stanley, Hong Kong	On-going	22,500	6.0%
7	P9	A private developer in Hong Kong	Private	Substructure building works services for a hotel development located at Causeway Bay, Hong Kong	Completed	22,494	6.0%
8	P1	LAML	Private	RMAA works services for a market block and commercial complex located at Tuen Mun, Hong Kong	Completed	20,885	5.5%
9	P10	Customer H	Private	Substructure building works services for a proposed commercial development located at Central, Hong Kong	On-going	20,087	5.3%
Total <sup>(Note 1)</sup> :						331,184	87.8%



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*Notes:*

1. The figures and percentages above may not add up to the total due to rounding.
2. Project described as “completed” means that the relevant project has achieved practical completion.
3. All our revenue recognised in this project for the year ended 31 March 2015 was attributable to superstructure building works services.

### For the six months ended 30 September 2015

Rank	Project	Customer	Sector	Type	Status <sup>(Note 2)</sup>	Amount of revenue recognised for the six months ended 30 September 2015 HK\$'000	% of our total revenue for the six months ended 30 September 2015
1	P7	Customer A	Private	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	On-going	32,743	21.1%
2	P4	Customer C	Private	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	On-going	28,360	18.3%
3	P8	Customer E	Private	Superstructure building works services for a residential development located at Stanley, Hong Kong	On-going	25,551	16.5%
4	P6	Customer D	Private	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	On-going	20,512	13.2%
Total <sup>(Note 1)</sup> :						107,166	69.1%

*Notes:*

1. The figures and percentages above may not add up to the total due to rounding.
2. Project described as “completed” means that the relevant project has achieved practical completion.

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The following table summarises our on-going projects (either in progress or yet to commence) as at the Latest Practicable Date with outstanding contract sum in descending order:

Rank	Project	Customer	Sector	Type	Accumulated revenue recognised as at the Latest Practicable Date <i>HK\$'000</i>	Outstanding contract sum as at the Latest Practicable Date <i>(Note 2)</i> <i>HK\$'000</i>
1	P17	A private developer in Hong Kong	Private	Superstructure building works services for a proposed residential development located at Shanghai Street, Kowloon, Hong Kong	956	97,374
2	P12	A school in Hong Kong	Private	Superstructure building works services for a redevelopment of teaching block for a school located at Stanley, Hong Kong	15,788	82,980
3	P11	Customer I	Private	Superstructure building works services for a proposed composite development located at Portland Street, Kowloon, Hong Kong	26,978	72,822
4	P7	Customer A	Private	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	72,899	68,101
5	P13	LAML	Private	RMAA works services for a block of commercial centre located at Tuen Mun, Hong Kong	4,376	49,271
6	P10	Customer H	Private	Substructure building works services for a proposed commercial development located at Central, Hong Kong	47,302	32,698
7	P6	Customer D	Private	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	74,458	30,142
8	P4	Customer C	Private	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	102,057	28,943
9	P14	A private developer in Hong Kong	Private	RMAA works services for a hotel located at Tsim Sha Tsui, Hong Kong	951	24,649
10	P16	A private developer in Hong Kong	Private	Substructure building works services for a proposed hotel development located at Tung Chau Street, Kowloon, Hong Kong	319	13,661
11	P15	A private developer in Hong Kong	Private	Substructure building works services for a proposed composite building located at Nam Cheong Street, Kowloon, Hong Kong	316	12,984
12	P8	Customer E	Private	Superstructure building works services for a residential development located at Stanley, Hong Kong	65,151	6,129
					Total <sup>(Note 1)</sup> :	519,754

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*Notes:*

1. The figures and percentages above may not add up to the total due to rounding.
2. Outstanding contract sum as at the Latest Practicable Date = contract sum – accumulated revenue recognised as at the Latest Practicable Date.

### SALES AND MARKETING

During the Track Record Period, our projects were mainly awarded by way of tendering. We generally adopt a flexible pricing strategy in preparing our tender submission. For details, please refer to the paragraph headed “Business — Business model and our operation — Invitation to tender and preparation of tender” in this document.

Our Directors consider that our relationship with our customers, expertise, reputation in the industry and past project references are our valuable assets to secure future projects. Our executive Directors are generally responsible for maintaining our customers’ relationship, and keeping abreast of market developments and potential business opportunities. Moreover, we believe that the [REDACTED] will be a breakthrough in promoting our Group to the general public, thus further enhancing our brand and future business development.

### OUR CUSTOMERS

During the Track Record Period, our top five customers include LAML, church and property developers.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our top five customers were Independent Third Parties, and total revenue attributable to them amounted to approximately HK\$172.1 million, HK\$284.6 million and HK\$129.1 million, representing approximately 86.0%, 75.4% and 83.3% of our total revenue, respectively. During the same period, total revenue attributable to our largest customer amounted to approximately HK\$81.6 million, HK\$76.8 million and HK\$36.7 million, representing approximately 40.8%, 20.4% and 23.7% of our total revenue, respectively. None of our Directors, Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our top five customers during the Track Record Period. The following three tables set forth the details of our top five customers during the Track Record Period:

#### For the year ended 31 March 2014

Customer	Background	Approximate % of our total revenue	Length of business relationship with our Group
LAML	A manager of a Hong Kong real estate investment trust listed in Hong Kong	40.8%	Since 2011
Customer B	A church in Hong Kong	24.2%	Since 2012
Customer E	A private developer in Hong Kong	10.1%	Since 2012
Customer G	A private developer in Hong Kong	6.7%	Since 2013
Customer H	A private developer listed in Hong Kong	4.2%	Since 2013

**BUSINESS**

**For the year ended 31 March 2015**

<b>Customer</b>	<b>Background</b>	<b>Approximate % of our total revenue</b>	<b>Length of business relationship with our Group</b>
Customer A	A stated-owned property developer listed in Hong Kong	20.4%	Since 2014
Customer B	A church in Hong Kong	17.7%	Since 2012
Customer C	A private developer in Hong Kong	14.2%	Since 2014
Customer D	A private developer in Hong Kong	12.7%	Since 2014
Customer E	A private developer in Hong Kong	10.4%	Since 2012

**For the six months ended 30 September 2015**

<b>Customer</b>	<b>Background</b>	<b>Approximate % of our total revenue</b>	<b>Length of business relationship with our Group</b>
Customer A	A state-owned property developer listed in Hong Kong	23.7%	Since 2014
Customer C	A private developer in Hong Kong	18.3%	Since 2014
Customer E	A private developer in Hong Kong	16.5%	Since 2012
Customer D	A private developer in Hong Kong	13.2%	Since 2014
Customer I	A private developer in Hong Kong	11.6%	Since 2013

## BUSINESS

### Major contract terms with our customers

From time to time, we receive invitations to tender from our customers. In general, projects are awarded to us on a case-by-case basis and are non-recurring in nature. We did not enter into any other long term contracts with any of our customers during the Track Record Period and up to the Latest Practicable Date. The contracts we entered into with our customers vary from project to project, and were generally based on the standard forms provided by our customers subject to further negotiations by the parties on the particular terms therein. The major contract terms with our customers can be summarised below:

<b>Major contract terms</b>	<b>Description</b>
Project information	Project information includes address of the construction site, scope of works, duration, contract sum and identities of certain consultants including architect, structural engineer and quantity surveyor, already on board.
Schedule of rates	The schedule of rates is the breakdown of the contract sum itemising the works and quantities, and setting out the price or price rate of each item of works. The schedule of rates may also contain provisional items and/or re-measurement items of works.
Terms of payment	<p>We receive progress payment from our customers pursuant to the contract. In general, for every one month, we prepare a statement setting out our estimate of the value of the works completed in the preceding month and submit the statement together with the payment application to our customers. Upon receiving such statement with our payment application, the architect and/or quantity surveyor of our customer shall assess our estimation and issue an interim certificate certifying the works completed in the preceding month. In general, it takes around 14 days from the date of our payment application to issue the interim certificate. Our customer will then make payment based on the certified amount less any retention money. Payments will normally be made by our customers within 30 days from the date of the issuance of the interim certificate.</p> <p>In general, within three months after the expiry of the defect liability period and making good the defects, our customer will issue the final certificate to state the sum of all amounts previously certified and the contract sum as adjusted pursuant to the contract. Such difference shall be settled by our customer or us, as the case may be, within 14 days from the final certificate date.</p>
Re-measurement and variation order	Please also refer to the paragraph headed "Business — Business model and our operation — Construction — Re-measurement and variation order" in this document.

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<b>Major contract terms</b>	<b>Description</b>
Surety bond	We are generally required to at our own cost obtain the guarantee of a licensed bank or insurance company in Hong Kong to be jointly and severally bound with us to our customer in a specified sum for the due performance of the contract under the terms of a bond in a specified format. The surety bond is generally released upon the practical completion. The surety bonds provided by our Group during the Track Record Period are generally in an amount not exceeding 4% of the contract sum.
Defect liability period	We are required to make good any defects at our own cost within the defect liability period, which is generally 12 months, after the practical completion.
Retention money	<p>The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount of each interim payment until the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.</p> <p>On the issue of the practical completion certificate, part of the retention money being retained will be released to us.</p> <p>After we have made good the defect to our customer’s satisfaction, the residue of the retention money being retained will be released to us.</p>
Insurance	We, as the main contractor, are required to take out the employees’ compensation insurance, contractor’s all risks and third party liability insurance, insurance for the construction plant and equipment brought onto the site for the contract.
Extension of time	If the progress of the works is likely to be delayed due to certain situations as supinated under the contract such as force majeure, variation orders and discovery of antiquities on the site, our customers shall estimate the length of the delay and make a fair and reasonable extension of time for completion of the works.
Liquidated damages	In general, failure to complete on time will result in liquidated damages against us calculated according to an agreed daily rate under the contract.

Please also refer to the paragraph headed “Business — Business model and our operation” in this document.

**BUSINESS**

**OUR SUPPLIERS**

Our suppliers include subcontractors, lessors of machinery and local distributors of construction materials.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our top five suppliers were Independent Third Parties, and our total purchase attributable to them amounted to approximately HK\$53.2 million, HK\$83.3 million and HK\$34.1 million, representing approximately 32.1%, 25.4% and 25.8% of our total purchase, respectively. During the same period, our total cost attributable to our largest supplier amounted to approximately HK\$12.6 million, HK\$30.9 million and HK\$14.8 million, representing approximately 7.6%, 9.4% and 11.2% of our total cost, respectively. None of our Directors, Shareholders (who to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our top five suppliers during the Track Record Period. Further, our suppliers engaged by us are not our major customers, nor vice versa. The following three tables set forth the details of our top five suppliers during the Track Record Period:

**For the year ended 31 March 2014**

<b>Supplier</b>	<b>Background</b>	<b>Approximate % of our total purchase</b>	<b>Length of business relationship with our Group</b>
Supplier C	Subcontractor	7.6%	Since 2010
Supplier A	Subcontractor	7.5%	Since 2012
Supplier D	Steel materials supplier listed in Hong Kong	6.8%	Since 2010
Supplier F	Subcontractor	5.4%	Since 2010
Supplier B	Steel materials supplier	4.8%	Since 2010

**For the year ended 31 March 2015**

<b>Supplier</b>	<b>Background</b>	<b>Approximate % of our total purchase</b>	<b>Length of business relationship with our Group</b>
Supplier A	Subcontractor	9.4%	Since 2012
Supplier B	Steel materials supplier	4.8%	Since 2010
Supplier C	Subcontractor	4.6%	Since 2010
Supplier D	Steel materials supplier listed in Hong Kong	3.5%	Since 2010
Supplier E	Subcontractor	3.1%	Since 2012

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**For the six months ended 30 September 2015**

<b>Supplier</b>	<b>Background</b>	<b>Approximate % of our total purchase</b>	<b>Length of business relationship with our Group</b>
Supplier A	Subcontractor	11.2%	Since 2012
Supplier G	Subcontractor	4.2%	Since 2015
Supplier H	Subcontractor	3.7%	Since 2009
Supplier C	Subcontractor	3.6%	Since 2010
Supplier I	Subcontractor	3.2%	Since 2015

**Subcontracting**

Our top five suppliers include subcontractors and construction materials suppliers. In general, our engagements with our subcontractors are on a case-by-case basis and are non-recurring in nature. We did not enter into any other long term contracts with any of our subcontractors during the Track Record Period and up to the Latest Practicable Date.

Our subcontracting fee is generally determined based on the estimated costs to be incurred by our subcontractors, mainly including labour cost, costs of construction materials and/or machinery usage cost, plus a certain mark-up margin.

During the Track Record Period, we engaged approximately 90 subcontractors. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the total cost in 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 the same periods, the cost in engaging our top five subcontractors amounted to approximately HK\$45.3 million, HK\$74.8 million and HK\$34.1 million respectively, representing approximately 55.2%, 46.4% and 48.6% of our total cost in engaging our subcontractors respectively.

For the same periods, the cost in engaging our largest subcontractor amounted to approximately HK\$12.6 million, HK\$30.9 million and HK\$14.8 million respectively, representing approximately 15.3%, 19.2% and 21.0% of our total cost in engaging our subcontractors respectively.

Since we generally have to bear responsibilities to our customers in respect of the defective works and/or delays in works of our subcontractors, our Directors consider that a stringent selection arrangement of our subcontractors is necessary. We maintain an internally approved list of subcontractors, which will be subject to our regular review based on a number of factors, including but not limited to, previous working relationship with us, business reputation, work capacity, work quality of previous projects, terms of payment and pricing level, and record of safety and environmental compliance.

For each subcontract, we generally invite more than one subcontractors from our internal approved list of subcontractors for quotations and our executive Directors will choose the most suitable subcontractor. Subcontracting cost, previous working relationship with us, work quality and work



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efficiency are the major selection criteria of our executive Directors. Further, to minimise the concentration risk and avoid reliance on particular subcontractors, we generally try to diversify our subcontracting engagements with our different subcontractors.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties or delays in performing our contracts due to material difficulties in identifying or engaging the required subcontractors. Further, our Directors considered that we had stable relationships with our subcontractors and confirmed that we had no material dispute with our subcontractors in respect of the subcontracts with them during the Track Record Period.

The contracts we entered into with our subcontractors vary from project to project, and were generally based on our standard forms subject to further negotiations by the parties on the particular terms therein. The major contract terms with our subcontractors can be summarised below:

<b>Major contract terms</b>	<b>Description</b>
Project information	Project information includes address of the construction site, scope of works, works commencement date, duration and contract sum.
Schedule of rates	The schedule of rates is the breakdown of the contract sum itemising the works and quantities, and setting out the price or price rate of each item of works. The schedule of rates may also contain provisional items and/or re-measurement items of works.
Terms of payment	<p>On or before the fifteenth (15th) day of each calendar month, our subcontractors shall submit payment application to us, which shall contain the quantity of completed works certified by our foreman together with receipts and/or records showing due payment of salary to their employees and the employees of their sub-subcontractors (if any).</p> <p>Upon receiving such payment application, we shall assess and certify the amount to be paid and make payment based on the certified amount less any retention money on the thirtieth (30th) day of the same calendar month.</p> <p>In general, within 12 months after the practical completion, we will access and settle the final payment to our subcontractors.</p> <p>We generally settle the payment by cheque or bank transfer in Hong Kong dollars.</p>

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<b>Major contract terms</b>	<b>Description</b>
Defect liability period	Our subcontractors are required to make good any defects at their own cost within the defect liability period, which is generally 12 months, after the issue of the practical completion certificate by the architect of our customer.
Retention money	<p>The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount of each interim payment and the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.</p> <p>On the issue of the practical completion certificate by the architect of our customer, half of the retention money being retained will be released to our subcontractors.</p> <p>On the issue of the certificate of completion of making good defects by the architect of our customer after the defect liability period, the residue of the retention money being retained will be released to our subcontractors.</p>

### **Procuring construction materials**

The construction materials that we purchased are mainly concrete and steel. We procure the same from local distributors in Hong Kong. We purchase concrete and steel for our subcontractors to carry out the works, and diesel fuel to operate our machinery at construction sites.

In general, the quotations as we agreed with our suppliers of construction materials set out, among others, specification, quantity, delivery period, price rate and credit period. Besides, there are agreed quotations which set out the price rate of the construction materials for an agreed delivery period but without specifying the quantity to be ordered. During the delivery period, when we need the construction materials, we will inform the suppliers our required quantity for them to arrange delivery. The total price is determined by the price rate under the agreed quotation. With such arrangement, we are able to secure stable supply of the construction materials but we may be required by our supplier to use its construction materials as specified under the agreed quotation exclusively throughout the delivery period for a particular project.

The construction materials we purchased are sent to the site directly by our suppliers. We do not keep any construction materials as inventory because they are procured on a project-by-project basis in accordance with the specifications. We generally settle the payment to our supplier of construction materials within 30 days after delivery. We generally settle the payment by cheque or bank transfer in Hong Kong dollars. Save aforesaid, we do not enter into any long-term supply agreement with our construction materials suppliers.

When the market price of the construction materials increases, for the potential projects, we can increase our tender price to our customers in order to transfer the increased cost pressure to our customers at the time of the tendering process. Nevertheless, we are not able to do so for the projects in progress because our contracts with our customers generally do not have any price adjustment mechanism for market price fluctuation of the construction materials.

To minimise such risk, and also to ensure stable supply of construction materials for the project, we target to negotiate for a favourable price rate for a longer delivery period instead of procuring the construction materials on an order-by-order basis. As such, our Directors consider that such cost pressure risk is minimal. Since there are a number of suppliers of construction materials in Hong Kong,

## BUSINESS

our Directors consider that it is feasible to engage alternative suppliers of construction materials for our Group. As such, our Directors consider that we did not overly rely on our suppliers of 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, representing approximately 35.3%, 35.5% and 30.5% of our total direct costs, respectively.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not experience any material difficulties or delays in performing our contracts due to material shortages or delays in supply of construction materials.

### **Leasing machinery**

For those subcontractors that we need to provide them machineries, we either provide them our own machineries or machineries leased from our suppliers (as agreed and included in the subcontract price). For details on our own machinery, please refer to the paragraph headed "Business — Our Machinery" in this document.

During the Track Record Period, the machineries we leased from our suppliers include generators, cranes and air compressors. Our Directors consider that this rental arrangement could increase our flexibility.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the total machinery rental costs from our suppliers amounted to approximately HK\$3.4 million, HK\$8.9 million and HK\$2 million, representing approximately 2.1%, 2.7% and 1.5% of our total direct costs respectively.

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### OUR MACHINERY

As at 30 September 2015, we own 19 sets of machinery, details of which are set forth in the following table:

No.	Type of machinery	Function and usage	Countries of origin	Year of acquisition	Cost of acquisition (HK' 000)	Weighted average age (Years)	Weighted average of remaining useful life (Years)
1.	Crane	Lifting heavy things and transporting them to other places	Japan	2013	470	2.26	2.74
2.	Crane	Lifting heavy things and transporting them to other places	Italy	2015	85	0.84	4.16
3.	Excavator	Heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform known as the "house"	Japan	2013	220	2.12	2.88
4.	Excavator	Heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform known as the "house"	The PRC	2013	105	2.12	2.88
5.	Excavator	Heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform known as the "house"	Hong Kong	2013	260	1.94	3.06
6.	Excavator	Heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform known as the "house"	Japan	2014	580	1.54	3.46
7.	Excavator	Heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform known as the "house"	The United State	2014	105	1.30	3.70
8.	Grout pump	Injecting a grout material into generally isolated pore or void space	Hong Kong	2013	160	1.94	3.06
9.	Grout pump	Injecting a grout material into generally isolated pore or void space	Hong Kong	2014	280	1.49	3.51
10.	Crawler drill	Drilling holes	Hong Kong	2014	2,169	1.88	3.12
11.	Crawler drill	Drilling holes	Japan	2014	750	1.59	3.41
12.	Crawler drill	Drilling holes	Korea	2014	130	1.55	3.45
13.	Crawler drill	Drilling holes	The PRC	2014	1,320	1.38	3.62
14.	Crawler drill	Drilling holes	The PRC	2014	1,320	1.38	3.62
15.	Crawler drill	Drilling holes	Japan	2014	850	0.97	4.03
16.	Generator	Converting mechanical energy to electrical energy for use in an external circuit	Japan	2014	126	1.52	3.48
17.	Air compressor	Converting power into potential energy stored in pressurised air	The PRC	2014	790	1.50	3.50
18.	Air compressor	Converting power into potential energy stored in pressurised air	The PRC	2014	791	1.34	3.66
19.	Air compressor	Converting power into potential energy stored in pressurised air	The PRC	2014	<u>778</u>	1.32	3.68
Total:					<u><u>11,289</u></u>		

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We engage Independent Third Parties to repair and maintain our machinery on a regular basis. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our expenses in repairing and maintaining our machinery, including the expenses of purchasing consumable machinery spare parts for regular replacement, accounted for approximately HK\$0.1 million, HK\$1.1 million and HK\$0.3 million respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material work interruption due to malfunction of our machinery.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the amount incurred in acquiring new machinery accounted for approximately HK\$4.1 million, HK\$8.0 million and HK\$nil respectively. As at 30 September 2015, our machinery had a total net book value of approximately HK\$7.8 million.

To facilitate capacity expansion, approximately HK\$[REDACTED] of the net proceeds from the [REDACTED] will be used to acquire new machinery in the next two years. The impact of such acquisitions on depreciation charges for each of the four years ending 31 March 2020 amounts to approximately HK\$[REDACTED], HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED], respectively.

### Utilisation rate

In view of the nature of our business and operations, our Directors consider that it is not feasible or practicable to accurately quantify the service capacity and utilisation rate of our machinery due to the following reasons:

- different types of project at different stages involve the use of different machineries. In general, for example, drilling rigs are more heavily used in the substructure building works projects, whereas the use of cranes is required in the substructure building works and superstructure building works. As such, machineries from time to time are left unused in active construction sites pending completion of other stages. Also, machineries are sometimes left unused for assembling, disassembling, repairing and maintenance works to be carried out. Due to the aforesaid, our Directors are of the view that it would be difficult to accurately measure an overall utilisation rate for our machinery in general. Further, it is not practicable for us to accurately record the daily or hourly usage of each individual machinery;
- each type of machinery is highly specific to different types of works. Given that we provided extensive services during the Track Record Period, it is not practicable to reliably quantify the capacity of each piece of machinery by making reference to an objective and comparable scale or standard of measurement; and
- as at 30 September 2015, we had 19 sets machinery and generally six types of machinery of various functions, sizes and capacity in use. Given that different machineries are required to be used in different types and stages of projects, and in view of the number of machineries owned by us, it would be difficult for us to identify one or a few types of machinery that are most crucial to our operation.

In view of the aforesaid, the collection of reliable and accurate data, including the hourly usage rate of each particular machinery, required for the calculation of the utilisation rates is infeasible in practice.

During the Track Record Period, when our machinery was not deployed for use, they would generally be transferred or placed at a site leased by our Group located at The Remaining Portion of Lot No. 1251 in D.D. 79, North New Territories, Hong Kong, pending further deployment in projects when necessary. In addition, as a project may involve various categories of works, we may optimise our operational efficiency by having an effective scheduling in deploying our machinery.

## BUSINESS

### QUALITY CONTROL

We have established a quality management system with the objective to, among others, complete the works on time, achieve quality standards, and reduce the waste of time and resources.

Members of our project teams have different roles and responsibilities in respect of our quality management system. In general, our executive Directors are responsible to, among others, evaluate and approve subcontractors' bids and assess their performance, and regularly check the implementation of our quality management system. Our project managers are responsible to, among others, develop and approve quality plans and implement quality control system, and manage and supervise quality control and quality assurance. Our quantity surveyors are responsible for, among others, overall control of project cost. Our foremen are responsible to, among others, supervise site working teams, plan and coordinate daily site activities and arrangement, and implement quality control system and ensure works done according to specification and quality control plans.

Further, our executive Directors are also responsible to review our quality management system annually to ensure its continuing suitability, adequacy and effectiveness.

In recognition of our quality management system, we are certified as being in compliance with the requirements of ISO 9001:2008. For details, please refer to the paragraph headed "Business — Awards, certifications and corporate social responsibilities" in this document.

### MAJOR QUALIFICATIONS AND LICENSES

As at the Latest Practicable Date, we had obtained the following licenses and qualifications which are material for us to operate our business in Hong Kong:

<b>Issuing authorities</b>	<b>Relevant list/category</b>	<b>Qualification/License</b>	<b>Holder</b>	<b>Validity period</b>
Buildings Department	Foundation Works	Registered Specialist Contractor	Ching Lee Engineering Limited	18 December 2016
Buildings Department	Site Formation Works	Registered Specialist Contractor	Ching Lee Engineering Limited	18 December 2016
Buildings Department	N/A	Registered General Building Contractor	Ching Lee Engineering Limited	24 January 2017
Works Branch Development Bureau	Repair and Restoration of Historic Buildings	Approved Suppliers and Materials and Specialist Contractors for Public Works	Ching Lee Engineering Limited	Effective from 22 April 2009 <sup>(Note)</sup>

*Note:* Not subject to any periodic renewal conditions.

With the support of the advice of our legal advisers as to Hong Kong laws, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained all the necessary licenses, permits, consents and approvals for our business operation in Hong Kong and all of them are valid.

## BUSINESS

### AWARDS, CERTIFICATIONS AND CORPORATE SOCIAL RESPONSIBILITIES

In recognition of our quality control system, we have obtained a number of certifications which are set out as follows:

Certifications	Year of Grant	Description	Issuing organisation	Expiry date
ISO 9001: 2008	2006	Certification of quality management system <i>(Note 1)</i>	Castco Certification Services Limited	8 March 2018
ISO 14001: 2004	2009	Certification of environmental management system <i>(Note 1)</i>	Castco Certification Services Limited	22 July 2018

*Note:*

- The certification concerns our construction, maintenance, renovation, alteration and addition of building works and service.

We have observed our environmental and safety responsibility and have been committed to memberships of environmental and safety organisations during our operating history. The following table sets out a summary of our commitments and award:

Membership/Awards	Year	Description	Organisation
Occupational Safety Charter	2012	Member to the Occupational Safety Charter	H.K. General Building Contractors Association
Corporate member	2012	Member to the Hong Kong Institute of Environmentalists	The Hong Kong Institute of Environmentalists
Zero Accident Achievement Award	2012	Safety award	H.K. General Building Contractors Association

### COMPETITION

According to the Ipsos Report, the substructure building works industry in Hong Kong was consolidated with the top ten players accounted for approximately 69.2% of the total industry revenue. Nevertheless, the superstructure building works industry in Hong Kong was considered as fragmented, with the top five players accounted for approximately 23.0% of the total industry revenue in 2014. Similarly, the top five players in the RMAA works industry in Hong Kong accounted for approximately 8.2% of the total industry revenue in 2014.

## BUSINESS

According to the Ipsos Report, the factors of competition in substructure building works industry in Hong Kong mainly include established reliable working relationships with customers, subcontractors, construction materials suppliers and workers, experience in substructure works project management and technical expertise, and reputation and track record. As to superstructure building works industry in Hong Kong, the factors of competition mainly include quality of works, and relationship with private developers. As to RMAA works industry in Hong Kong, the factors of competition mainly include reputation and track record, price, market share and size of the main contractor, and whether the main contractor is specialised in related field of the project such as hospital.

Our Directors consider that our main competitors in the construction main contracting industry are mainly main contractors in Hong Kong which provide either substructure building works services, superstructure building works services or RMAA works services, and also focus on undertaking projects in private sectors. As revealed by the Ipsos Report, industry expertise and experience, and track record are two of the major entry barriers in the construction main contracting industry in Hong Kong.

In view of the competition in the industry, we believe that we are well equipped to compete with our competitors on our competitive strengths. We consider that our competitive strengths have contributed to our success. As such, even though competition within the construction main contracting industry in Hong Kong will continue to intensify in the future, we are confident that we are able to withstand the intense competition with our competitive strengths. For further details of our competitive strengths, please refer to the paragraph headed "Business — Our competitive strengths" in this document.

### OUR EMPLOYEES

As at the Latest Practicable Date, we had approximately 80 full-time employees who were directly employed by us in Hong Kong. The following table sets out the number of our employees by their functional role:

Functional role	Number
Director	3
Tendering	2
Project management	33
Safety	8
Purchasing	1
Administrative	15
Construction site workers	<u>18</u>
Total:	<u><u>80</u></u>

Our department heads will prepare annual department headcount budgets for their respective department. Our project teams will also prepare their respective project forecasts. All these will be consolidated and submitted to our management for approval. If any of our departments and/or project teams need recruitment, requisition form would be prepared stating the reasons for requisition, key areas of responsibilities, job specifications and any extra requirements. Our human resources manager will approve such requisition form and then issues recruitment advertisement.

We recruit our employees based on a number of factors such as their work experience, educational background, qualifications or certifications possessed and vacancies. We may recruit our employees by advertising on websites. During the Track Record Period, we did not engage any human resources agency for recruitment purpose.



## BUSINESS

Our new employees are generally subject to a three-month probation. On-the-job training will be provided to our new employees during the probation period by their respective supervisors. At the end of the probation period, we will conduct performance evaluation and the same is to be approved by our management before our new employees are appointed as our permanent employees.

Education and training will also be provided to our existing employees on various aspects including advanced knowledge and skills on machinery operation, work safety and quality control on a continuing basis. Our Directors consider that our training programme can increase our overall efficiency and facilitate us to retain quality employees.

The remuneration package for our employees generally includes salary and bonuses. Our employees also receive welfare benefits, including exam leave, retirement benefits, occupational injury insurance, medical insurance and other miscellaneous items. We conduct annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees. Our executive Directors will also conduct research on the remuneration packages offered for similar positions in the Hong Kong construction main contracting industry in order to keep our remuneration packages at a competitive level. We have also adopted the Share Option Scheme which will become effective upon [REDACTED]. The Share Option Scheme is designed to provide incentives and rewards to our employees.

We have not set up any trade union for our employees. We have not had any strikes or other material labour disputes that have materially disrupted our operations, during the Track Record Period and up to the Latest Practicable Date. Our Directors believe that we have maintained a good working relationship with our employees.

Our labour cost, including wages, salaries and other employee's benefits, 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 which amounted to approximately 2.0%, 3.9% and 4.6% of our total direct costs respectively for the same periods.

## BUSINESS

### OUR PROPERTIES

#### Real properties

As at the Latest Practicable Date, our Group held four properties in Hong Kong. As part of the Reorganisation, we will dispose one property to Mr. Ng, acquire one property from Mr. Ng and acquire three properties from Strong Knight, all of which will be completed before [REDACTED]. As such, we will own in total seven properties in Hong Kong upon [REDACTED], all of which are for our own use. The following table sets out the information of the properties we owned as at the Latest Practicable Date and properties to be disposed and acquired by us pursuant to the Reorganisation:

No.	Address	Registered owner as at the Latest Practicable Date	Usage	Approximate saleable area (sq. ft.)
1.	Shop 2, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon	Right Lucky	Office	420
2.	Shop 3, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon <sup>(Note 1)</sup>	Mr. Ng	Office	405
3.	Shop 4, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon	Ching Lee Construction	Office	327
4.	Shop 5, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon	Right Lucky	Office	336
5.	Shop 11, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon <sup>(Note 2)</sup>	Strong Knight	Office	377
6.	Shop 12, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon <sup>(Note 3)</sup>	Strong Knight	Office	231
7.	Workshop 6, 8/F, Ho Lik Centre, 66A Sha Tsui Road, New Territories <sup>(Note 4)</sup>	Strong Knight	Storage	501
8.	Flat B, 27/F, Tower 7, Island Harbourview, 11 Hoi Fai Road, Kowloon <sup>(Note 5)</sup>	Ching Lee Engineering	Residential	916

*Notes:*

1. We will acquire such property from Mr. Ng at HK\$5,890,000.
2. We will acquire such property from Strong Knight at HK\$5,340,000.
3. We will acquire such property from Strong Knight at HK\$3,310,000.
4. We will acquire such property from Strong Knight at HK\$2,640,000.
5. We will dispose of such property to Mr. Ng at HK\$17,600,000 which will generate a gain on disposal for Ching Lee Engineering in the amount of approximately HK\$13.6 million based on the above estimated disposal price and the carrying amount of the property of HK\$4,046,000 as at 30 September 2015.

As at the Latest Practicable Date, the above eight properties were subject to mortgage in favour of several authorised institutions in Hong Kong for the purpose of securing various facilities granted to our Group. As advised by our legal advisers as to Hong Kong laws, save as disclosed above and in this document, the above eight properties in Hong Kong possess good and marketable title under the laws of Hong Kong as at the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, none of the above eight properties was subject to compulsory order for sale or auction in public pursuant to the Land (Compulsory Sale for Redevelopment) Ordinance (Chapter 545 of the laws of Hong Kong).

## BUSINESS

For further details of the above eight properties, please refer to the Property Valuation Report set out in Appendix III to this document.

### Leased properties

The following table sets out the addresses, approximate floor area and the lease terms of the properties leased by us as at the Latest Practicable Date:

No.	Address	Our use of property	Approximate floor area (sq. ft.)	Term	Rental type
1.	Office 9 on 13th Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street, Kowloon	Office	413 (Note 1)	From 15 October 2015 to 14 October 2017	Basic rent
2.	Office 6 on 11th Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street Kowloon	Office	301 (Note 1)	From 15 January 2014 to 14 January 2016	Basic rent
3.	(Room D8) Unit D on 7th Floor, Centro-sound Industrial Building, No. 6 A Kung Ngam Village Road, Hong Kong	Storage	286 (Note 2)	From 15 April 2014 to 30 April 2016	Basic rent
4.	Flat A2 on 6/F, Hankow Centre, No. 47 Peking Road, No. 4A Ashley Road & No. 1C Middle Road, Kowloon	Staff quarter (Note 4)	588 (Note 2)	From 26 April 2014 to 25 April 2016	From 26 April 2014 to 30 April 2014: rent free From 1 May 2014 to 25 April 2016: basic rent
5.	Flat 2 on 9 the Floor, Wah May Buiding Block B, No. 211 Portland Street, Kowloon	Staff quarter	307 (Note 2)	From 1 April 2015 to 31 March 2017	Basic rent
6.	Flat A on 20th Floor, Amber Lodge, No. 23 Hollywood Road, Hong Kong	Staff quarter (Note 4)	440 (Note 1)	From 23 March 2015 to 22 March 2017	Basic rent
7.	The Remaining Portion of Lot No. 1251 in D.D. 79, North New Territories, Hong Kong	Open storage	7,800 (Note 3)	From 15 December 2015 to 14 December 2019 (Note 5)	From 13 December 2015 to 14 December 2015: rent free From 15 December 2015 to 14 December 2019: basic rent

*Notes:*

1. Leased property nos. 1, 2 and 6 are stated in gross floor area.
2. Leased property nos. 3, 4 and 5 are stated in saleable area, as gross floor area is not available.
3. Leased property no. 7 is stated according to the site area scaled from the relevant lot index plan and tenancy plan.
4. Leased property no. 4 and 6 were, and still are, subject to mortgages and the relevant consents (the mortgagees for the grant of the leases in respect of the properties have not been obtained).
5. Lease of leased property no. 7 is registrable under Land Registration Ordinance (Chapter 128 of the Laws of Hong Kong), and has not been registered as at the Latest Practicable Date. For discussion about the relevant risk involved, please refer to the paragraph headed "Risk factors — We have not registered a leased property which may be encumbered and may face vacation" in this document.

## **BUSINESS**

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our property rental and related expenses amounted to approximately HK\$221,000, HK\$355,000, and HK\$163,000 million, representing approximately 0.1%, 0.09%, 0.1% respectively of our total revenue for the same periods.

### **INSURANCE**

As a main contractor, we are required to cover our projects with sufficient employees' compensation insurance and contractor's all risks insurance. Insurance coverage of contractor's all risks insurance for each project should be determined based on the contract documents of the relevant project. For the purpose of seeking quotation from insurance companies, we generally provide them information and documents of the relevant project such as letter of award, scope of works, estimated contract value, insurance requirement, period of insurance cover and limit of indemnity.

We also maintain a list of insurance policies to make sure our employees' compensation insurance and contractor's all risks insurance covered the entire period of our projects. Once there are work accidents, we shall commence investigation and follow up with insurance claim progress according to the relevant insurance policy.

We also maintain insurance policies to protect our offices and warehouses against a range of contingencies, including, among others, loss and theft of, and damage to, our property, machinery and equipment. We also maintain personal injury insurance and work-related injury insurance for our Directors and employees working in our offices and warehouses, and medical insurance for all our employees. For machines acquired under finance leases or mortgages, the banks also require us to maintain insurance coverage over those machines.

Our Directors believe that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and are in line with the industry norm. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our insurance expenses were approximately HK\$5.2 million, HK\$10.8 million and HK\$2.8 million respectively.

### **ENVIRONMENT**

We have established an environmental management system. For each project, we would identify environmental issues and assess the associated impacts on certain aspects including but not limited to, use of materials and resources, materials storage, waste management, water pollution, air emission and noise, and if necessary, we will revise our environmental protection plan implemented.

In recognition of our environmental management system, we were awarded the ISO 14001:2004 (environment management system standard) in 2009. For details, please refer to the paragraph headed "Business — Awards, certifications and corporate social responsibilities" in this document.

For details of the laws and regulations in relation to environmental protection applicable to our business, please refer to the paragraph headed "Regulatory overview — B. Laws and regulations in relation to environmental protection" in this document.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our cost of compliance with the applicable environmental laws and regulations in Hong Kong were approximately HK\$1.9 million, HK\$2.8 million and HK\$1.2 million respectively, which primarily consisted of construction waste transportation costs and dumping charges. Our executive Directors expect that such cost of compliance to be incurred in future will increase for the two years ending 31 March 2017 primarily because of the increasing number of projects after implementation of our expansion plan.

## BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we were not prosecuted for any breach of any applicable environmental laws and regulations.

### WORK SAFETY

Risks of accidents and injuries to workers in construction sites are inherent. We have implemented occupational health and safety measures for our employees and the employees of our subcontractors. For details of our occupational health and safety measures, please refer to the paragraph headed "Occupational health and safety measures" below.

As at the Latest Practicable Date, we had two registered safety officers, to monitor and implement our occupational health and safety measures. We also had five safety supervisors to station on and/or regularly visit and inspect our construction sites. One of our registered safety officers and four of our safety supervisors have passed the examination in first aid certificate course.

When our foreman, assistant foreman and/or safety supervisor in each construction site discover any work injury, they will first arrange the injured person to receive proper medical treatment. Sick leave will also be granted according to the medical certificate received by the injured person (if any) after medical treatment. In the meantime, 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.

We also maintain an internal record of our work injuries. For each of the calendar years 2013 and 2014, and the period from 1 January 2015 to 30 September 2015 (both days inclusive), we recorded two, nil and nil work injuries of our employees, and three, seven and seven work injuries of our subcontractors' employees, respectively.

Pursuant to section 15(1A) of the Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong), notice of any accident which results in the total or partial incapacity of the employee shall be given to the Commissioner for Labour by the employer. All the aforesaid work injuries had been reported to the Commissioner for Labour and were covered by our insurance policies.

## BUSINESS

The following table sets out the information of the work injuries of our employees from 1 January 2013 to 30 September 2015 (both days inclusive):

### For the calendar year 2013

No.	Date of accident	Details of the accident and nature of injuries	Consequence
1.	21 June 2013	An employee of our subcontractor suffered abdomen and back injuries whilst removing the shaft of the boom on the crane.	A 276-day leave was granted to the injured employee. The relevant court action DCEC2226/2014 has been discontinued by the injured employee. The relevant court action HCPI612/2015 is on-going and was taken over and being handled by the insurer.
2.	23 August 2013	An employee of our subcontractor suffered left ring finger injury whilst performing lifting works.	A 123-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
3.	6 November 2013	An employee of our subcontractor suffered right little finger injury whilst performing installation works.	A 66-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
4.	16 December 2013	An employee of our Group suffered left shoulder and left wrist injuries whilst approaching her working site.	Leave was granted to the injured employee since 16 December 2013. The relevant court action DCEC2001/2015 is on-going and was taken over and being handled by the insurer.
5.	30 December 2013	An employee of our Group suffered finger injury when performing lifting and carrying works.	A 68-day leave was granted to the injured employee. The relevant court actions DCEC553/2014 and DCPI1795/2014 have been fully settled.

## BUSINESS

### For the calendar year 2014

No.	Date of accident	Details of the accident and nature of injuries	Consequence
1.	11 March 2014	An employee of our subcontractor suffered leg injury whilst he slipped and fell on the construction site.	Leave was granted to the injured employee since 11 March 2014 and the injured employee subsequently resigned with immediate effect on 2 October 2015. The incident was taken over and being handled by the insurer.
2.	14 April 2014	An employee of our subcontractor suffered right ear injury whilst performing welding works.	A 27.5-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
3.	22 May 2014	An employee of our subcontractor suffered right chest injury whilst operating a winch.	A 205-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
4.	10 July 2014	An employee of our subcontractor suffered ankle injury whilst assembling a machinery.	A 16-day leave was granted to the injured employee. The incident was being handled by the insurer.
5.	16 September 2014	An employee of our subcontractor suffered left knee injury whilst he was tripped by a cement bag on the ground in the course of work.	Leave was granted to the injured employee since 16 September 2014. The relevant court action DCEC1466/2015 is on-going and was taken over and being handled by the insurer.
6.	22 September 2014	An employee of our subcontractor suffered chest injury whilst performing steel reinforcing works.	A 55-day leave was granted to the injured employee. The incident was being handled by the insurer.
7.	7 October 2014	An employee of our subcontractor suffered left forearm injury whilst he fell from a chair in the course of work.	A 83-day leave was granted to the injured employee. The incident was being handled by the insurer.

## BUSINESS

For the period from 1 January 2015 to 30 September 2015 (both days inclusive)

No.	Date of accident	Details of the accident and nature of injuries	Consequence
1.	17 January 2015	An employee of our subcontractor suffered head and forearm injuries whilst performing plastering works.	Leave was granted to the injured employee since 18 January 2015. The incident was being handled by the insurer. A medical assessment by the Employees' Compensation (Ordinary Assessment) Board on the injured employee was arranged to be conducted on 6 January 2016.
2.	21 March 2015	An employee of our subcontractor suffered finger injury whilst performing cleaning works.	A 18-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
3.	13 April 2015	An employee of our subcontractor suffered left foot injury whilst moving an object in the course of work.	A 65-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
4.	10 June 2015	An employee of our subcontractor suffered right eye injury whilst performing formwork related works.	A 7-day leave was granted to the injured employee. The incident was being handled by the insurer.
5.	27 July 2015	An employee of our subcontractor suffered left foot injury whilst performing hoarding sheets related works.	A 32-day leave was granted to the injured employee. The incident was being handled by the insurer.
6.	6 August 2015	An employee of our subcontractor suffered right elbow injury whilst dismantling the crane.	A 23-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.
7.	4 September 2015	An employee of our subcontractor suffered chest injury whilst assembling a machinery.	A 42-day leave was granted to the injured employee. The incident was being handled by the insurer.



**BUSINESS**

The following table sets out the comparison of the accident rate per 1,000 workers and fatality rate per 1,000 workers of our Group against the relevant construction industry average rates in Hong Kong:

	<b>Construction industry average rate<sup>(Note 1)</sup></b>	<b>Our Group's rate<sup>(Note 2)</sup></b>
<b>For the calendar year 2013</b>		
Accident rate per 1,000 workers	40.8	23.26 <sup>(Note 3)</sup>
Fatality rate per 1,000 workers	0.277	—
<b>For the calendar year 2014</b>		
Accident rate per 1,000 workers	41.9	26.68
Fatality rate per 1,000 workers	0.242	—
<b>For the period from 1 January 2015 to 30 November 2015 (both days inclusive)</b>		
Accident rate per 1,000 workers	N/A	16.62
Fatality rate per 1,000 workers	N/A	—

*Notes:*

1. The figures are from the Occupational Safety and Health Statistics 2014 (August 2015) by Occupational Safety and Health Branch, Labour Department.
2. Our Group's injury rate is calculated with reference to the definition of injury rate under the Occupational Safety and Health Statistics 2014 (August 2015) by Occupational Safety and Health Branch, Labour Department, which is the number of work injuries resulting in total or partial incapacity of employees of our Group and our subcontractors, divided by the monthly average number of construction site employees, during a calendar year. The monthly average number of construction site workers includes employees of our Group and our subcontractors and is determined by the construction site attendance reports we have uploaded to the registrar of construction workers pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong).
3. We did not keep in our possession the construction site attendance reports for the period from January 2013 to July 2013 we have uploaded to the registrar of construction workers pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong). As such, solely for the purposes of illustration and calculation of accident rate per 1,000 workers for the calendar year 2013, the monthly average number of construction site workers from January 2013 to July 2013 is taken to be the monthly average number of construction site workers from August 2013 to December 2013.

For each of the calendar years 2013 and 2014, and the period from 1 January 2015 to 30 November 2015 (both days inclusive), we recorded no fatal injuries for our projects and so the fatality rates of our projects were lower than the construction industry average rates in Hong Kong.

## BUSINESS

A table showing our Group's lost time injuries frequency rates ("LTIFRs") is set out below:

For the calendar year 2013	8.59
For the calendar year 2014	9.84
For the period from 1 January 2015 to 30 November 2015 (both days inclusive)	6.13

*Notes:*

1. LTIFR is a frequency rate that shows how many lost time injuries ("LTIs") occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFR is calculated as multiplying the number of lost time injuries of our Group happened in the calendar year by 1,000,000 and then dividing by the number of hours worked by the workers over that calendar year.
2. The number of working days of construction site workers for each of the calendar years 2013 and 2014, and the period from 1 January 2015 to 30 November 2015 (both days inclusive) were approximately 301 days, 300 days and 301 days respectively. It is assumed that the working hour of each worker is nine hours per day.

### Occupational health and safety measures

Accident prevention in work place is our focus. To fulfil the relevant statutory safety and health requirements, we maintain a safety management system, with particulars as follows:

*Safety organisations*

We have established a safety management committee, chaired by our executive Director, which is responsible for monitoring and reviewing our safety performance, ensuring the implementation of our safety manual, and seeking the co-operation and commitment of staff at all levels. It holds meeting quarterly to review the safety measures.

We have established a site safety committee, which comprises of project manager, registered safety officer, safety supervisor, foreman, subcontractors and employees' representatives, for each construction site to implement our safety plan, review and monitor the effectiveness of our safety and health measures taken and seek the co-operation and commitment of staff at all levels.

We have also engaged an external safety consultant, an Independent Third Party, to conduct independent safety audit for us.

*Safety manual*

Safety manual is prepared and update annually by our safety department. Our site safety committee will review safety rules and issue new rules or procedures to cope with changes in policies, processes, procedure, and method statement. All safety rules and regulations must be distributed to the concerned workers. Specific safety rules of hazardous activities must be posted in the nearby area or operation such as welding, lifting operation, woodworking, etc.

*Safety training*

Each of our construction site workers including workers of our subcontractors has to hold a valid construction industry safety training certificate (commonly named as "Green Card"), Hong Kong identity card and construction workers registration card before he/she enters the construction site.

## BUSINESS

We, as the main contractor, provide training to all new staff and workers (including those of the subcontractors), including the content of (i) safety policy; (ii) safety knowledge and site safety practice; (iii) duty of employers and employees; (iv) safety personnel at construction site; (v) safety rules for fire and lifting; (vi) personal protective equipment; (vii) safety organization and committee; (viii) action in case of emergency and reporting of unsafe act; and (ix) environmental protection. Workers will also receive toolbox talks conducted by the respective front line supervisors and registered safety officers.

### *Inspection of hazardous conditions*

Regular weekly site safety inspections will be carried out to identify defects, unsafe conditions and practices, and breaches of statutory or safety plan requirements.

Our registered safety officer shall prepare a monthly report. All the items shall be discussed in site safety committee meeting. Follow-up actions, if any, shall be completed foreman.

The following sets forth the general safety rules for foreseeable hazardous conditions:

- Safety helmet must be worn at all times.
- Safety harness must be used when working at height.
- Alcoholic drinking on construction site and smoking outside the designed smoking area in working hours are prohibited.
- Scaffold working platform must be secured.
- Safety installation must not be interfered with.
- Electrical tools must be connected to earth, except double insulation type.
- Falling objects are strictly prohibited.
- Be careful while at work with operating machine.
- Safety equipment must be used.
- Any unsafe condition to site management must be immediately reported.

### *Machinery maintenance*

For each item of machinery used in the construction site, testing is carried out before putting into service to ensure the condition of the same meeting the safety criteria. Our safety supervisor will maintain an updated list of machinery in the construction site to ensure regular maintenance of the same is carried out. Our safety supervisor is also responsible to check that the machinery is operating in accordance with the relevant method statements and safety measures.

### *Safety promotion*

Safety posters issued by the Labour Department and Occupational Safety and Health Council are also displayed so as to enhance the safety awareness of all construction site workers.

## BUSINESS

### *Accident investigation*

Any work accident occurred shall be investigated by the immediate supervisor of the injured person and the safety supervisor immediately after the work accident.

Recommendation on safety precautionary measures to prevent the recurrence of such work accident should be prepared by registered safety officer and be discussed in site safety committee meeting with all subcontractors for prevention of any recurrence.

### *Environmental protection*

Our registered safety officers would carry out regular noise level surveys on areas surrounding the construction sites or activities suspected of generating excessive noise levels.

We would devise, arrange methods of working and carry out works in such a manner so as to minimise impacts on surrounding environment.

### *Evaluation, selection and control of our subcontractors*

During the process of assessing tenders from our subcontractors, we evaluate and review the safety history of the subcontractors for reference. We also generally include our safety requirements in our subcontractor agreements together with a deduction mechanism on subcontractors' payment for any infringement of our safety requirements.

Our registered safety officers monitor and review the safety performance of our subcontractors on a monthly basis, record the results and report to our safety management committee in special circumstances where the performance of the subcontractor is considered as poor.

## LEGAL PROCEEDINGS AND LEGAL COMPLIANCE

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities which may arise as a result of any work injuries, outstanding litigations, claims, and non-compliances of our Group on or before the date on which the [REDACTED] becomes unconditional. Further details of the Deed of Indemnity are set out in the paragraph headed "E. Other information — Tax and other indemnities" in Appendix V to this document.

### **Legal proceedings**

As at the Latest Practicable Date and save as disclosed in this paragraph, no member of our Group was engaged in any litigation, claim or arbitration of material importance, and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

**BUSINESS**

***Civil litigations as at the Latest Practicable Date***

Nature of the claims	Date of the incident	Plaintiff(s)/ Applicant(s)	Defendant(s)/ Respondent(s)	Amount/estimated quantum of damages claimed	Status
<p>1. An employee of a subcontractor of Ching Lee Engineering suffered abdomen and back injuries whilst he was removing the shaft of the boom on the crane in the course of work.</p> <p>The injured individual has (i) made an application under the Employees' Compensation Ordinance (the "First Claim"); and (ii) filed a personal injury claim (the "Second Claim").</p>	21 June 2013	The injured individual	The subcontractor of Ching Lee Engineering, an Independent Third Party as 1st respondent; Ching Lee Engineering as 2nd respondent.	<p>(i) Compensation under sections 9, 10 and 10A of the Employees' Compensation Ordinance, plus interests and costs claimed.</p> <p>(ii) To be assessed by the court for the Second Claim.</p>	<p>(i) The First Claim was discontinued.</p> <p>(ii) The insurer has taken over conduct of the Second Claim.</p>
<p>2. An employee of Ching Lee Engineering suffered left shoulder and left wrist injuries whilst approaching her working site in the course of work.</p> <p>The injured employee has made a claim under the Employees' Compensation Ordinance.</p>	16 December 2013	The injured employee	Ching Lee Engineering	Compensation under sections 9, 10 and 10A of the Employees' Compensation Ordinance, plus interests and costs claimed.	The insurer has taken over conduct of the proceedings.
<p>3. An employee of a subcontractor of Ching Lee Engineering suffered left knee injury whilst he was tripped by a cement bag on the ground in the course of work. The injured individual has made a claim under the Employees' Compensation Ordinance.</p>	16 September 2014	The injured individual	The subcontractor of Ching Lee Engineering, an Independent Third Party as 1st respondent; Ching Lee Engineering as 2nd respondent.	Compensation under sections 9, 10 and 10A of the Employees' Compensation Ordinance, plus interests and costs claimed.	The insurer has taken over conduct of the proceedings.

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### *Criminal litigations as at the Latest Practicable Date*

<b>Nature of the charge</b>	<b>Date(s) of the incident</b>	<b>Defendant</b>	<b>Status</b>
1. Ching Lee Engineering was charged for, being a registered specialist contract (site formation works) directly concerned with the building works, namely, excavation and lateral support works at a construction site, carried out such building works in such manner as was likely to cause a risk of injury to persons or damage to property contrary to section 40(2B)(b) of the Buildings Ordinance.	Between 6 November 2014 and 17 November 2014 (both dates inclusive)	Ching Lee Engineering	<p>The court hearing is expected to be held on 7 January 2016.</p> <p>As advised by our legal advisers as to the Buildings Ordinance matters, as the case is still at its early stage, they are unable to advise on the merits of the case or the chance of Ching Lee Engineering's acquittal with any degree of certainty at this stage and it is difficult at this stage to estimate the possible outflow of economic benefits.</p> <p>As advised by our legal advisers as to the Buildings Ordinance matters, the maximum penalty upon conviction is a fine of HK\$1,000,000 and imprisonment for three years.</p> <p>Our legal advisers as to the Buildings Ordinance matters are of the view that it is not likely that the maximum fine will be imposed or any sentence of imprisonment would be ordered against the director or officers of Ching Lee Engineering in the absence of any aggravating factors.</p>
2. Ching Lee Engineering was charged for, being the contractor responsible for a construction site, failed to take adequate steps to prevent a person on the site from falling from a height of 2 metres or more contrary to regulation 38B(1) of the Construction Sites (Safety) Regulations under the Factories and Industrial Undertakings Ordinance.	21 April 2015	Ching Lee Engineering	<p>The court hearing is expected to be held on 2 February 2016.</p> <p>As advised by our legal advisers as to the Construction Sites (Safety) Regulations matters, the maximum penalty is a fine of HK\$200,000, and their estimate of the likely fine is HK\$20,000 in case of conviction.</p>

## BUSINESS

Besides the civil litigations set out above, the injured individuals may commence their claims under the Employees’ Compensation Ordinance and/or their personal injuries claims under common law within the limitation period of two years (for employees’ compensation claims) or three years (for personal injury claims) from the date of the relevant incidents. As these potential claims have not yet been filed, we are not in a position to assess the likely amount of such potential claims. Our Directors confirm that our Group has insurance coverage for its liabilities resulting from all these incidents and notices of such incidents have been given to the insurers as at the Latest Practicable Date and therefore are of the view that such claims as disclosed above have no material adverse impact on the operation or financial position or business of our Group. These cases were caused during usual and ordinary course of our business and have not caused disruption to our Group’s business or have an adverse impact on our Group to obtain any licenses or permits for our operation.

### Legal compliance

Our Directors confirm that save as disclosed below under this paragraph, we have complied with all applicable laws and regulations in all material respects in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

#### *Non-compliance with the Construction Industry Council Ordinance*

Set out below are non-compliances of our Group with the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) (“CICO”):

Relevant section of ordinance	Particulars of non-compliance	Reason(s) for the non-compliance	Remedial action	Estimate/actual fine/penalty
Sections 35 and 36 of the CICO	<p>Under sections 35 and 36 of the CICO, we have the duty to file to the Construction Industry Council (i) a notice of payment within a prescribed time limit after we receive a payment in respect of the construction operation; and (ii) a notice of completion within a prescribed time limit after the completion of the construction project. The purpose of filing the notice of payment and notice of completion is to facilitate the Construction Industry Council to assess the amount of construction industry levy payable by us under Schedule 5 of the CICO.</p> <p>There are 15 projects that are on-going or were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of payment within the prescribed time limits.</p> <p>There are 7 projects that were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of completion.</p> <p>We also had incidents of failure to file the notices of payment and/or notices of completion within the prescribed time limits for projects that were completed before two years before the Latest Practicable Date.</p>	<p>The breach was not wilful and was due to the inadvertent oversight of our administrative staff.</p>	<p>On 16 December 2015, we filed the relevant notices of payment and notices of completion to the Construction Industry Council for projects that are on-going or were completed within two years before the Latest Practicable Date.</p> <p>We will make timely payment of the construction industry levy and surcharge when the Construction Industry Council issued the provisional or final assessment after considering the filed notices of payment and notices of completion.</p>	<p>Under sections 35 and 36 of the CICO, the maximum fine for each offence is HK\$10,000. Further, the construction industry levy and surcharge is recoverable by the Construction Industry Council as civil debt under section 47 of the CICO.</p> <p>As advised by the Legal Counsel, for projects that were completed before two years before the Latest Practicable Date, the risk of liability of payment of construction industry levy and surcharge is minimal, and the risk of fixed fine is also slight.</p> <p>As advised by the Legal Counsel, for projects that are on-going or were completed within two years before the Latest Practicable Date, the risk for fixed fine is remote.</p>

**BUSINESS**

*Non-compliance with the Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations*

Set out below are non-compliances of our Group with the Pneumoconiosis and Mesothelioma (Compensation) Ordinance (Chapter 360 of the Laws of Hong Kong) (“**PMCO**”) and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (Chapter 360A of the Laws of Hong Kong) (“**PMCALR**”):

<b>Relevant section of ordinance</b>	<b>Particulars of non-compliance</b>	<b>Reason(s) for the non-compliance</b>	<b>Remedial action</b>	<b>Estimate/actual fine/penalty</b>
Regulations 5 and 5A of the PMCALR	<p>Under regulations 5 and 6 of the PMCALR, we have the duty to file to the Pneumoconiosis Compensation Fund Board (i) a notice of payment within a prescribed time limit after we receive a payment in respect of the construction operation; and (ii) a notice of completion within a prescribed time limit after the completion of the construction project. The purpose of filing the notice of payment and notice of completion is to facilitate the Pneumoconiosis Compensation Fund Board to assess the amount of pneumoconiosis compensation fund levy payable by us under Schedule 5 of the PMCO.</p> <p>There are 14 projects that are on-going or were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of payment within the prescribed time limits.</p> <p>There are 6 projects that were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of completion.</p> <p>We had incidents of failure to file the notices of payment and/or notices of completion within the prescribed time limits for projects that were completed before two years before the Latest Practicable Date.</p>	The breach was not wilful and was due to the inadvertent oversight of our administrative staff.	<p>On 16 December 2015, we filed the relevant notices of payment and notices of completion to the Pneumoconiosis Compensation Fund Board for projects that are on-going or were completed within two years before the Latest Practicable Date.</p> <p>We will make timely payment of the pneumoconiosis compensation fund levy and surcharge when the Pneumoconiosis Compensation Fund Board issued the relevant notices of assessment after considering the filed notices of payment and notices of completion.</p>	<p>Under regulations 5 and 6 of the PMCALR, the maximum fine for each offence is HK\$5,000. Further, the pneumoconiosis compensation fund levy and surcharge is recoverable by the Pneumoconiosis Compensation Fund Board as civil debt under section 38 of the PMCO.</p> <p>As advised by the Legal Counsel, for projects that were completed before two years before the Latest Practicable Date, the risk of liability of payment of pneumoconiosis compensation fund levy and surcharge is minimal, and the risk of fixed fine is also slight.</p> <p>As advised by the Legal Counsel, for projects that are on-going or were completed within two years before the Latest Practicable Date, the risk for fixed fine is remote.</p>



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*Non-compliance with the Predecessor Companies Ordinance and Companies Ordinance*

Our Directors confirm that they were aware of the occurrence of certain non-compliances of our Group with the Predecessor Companies Ordinance in respect of matters including among others, timely adoption of audited accounts, failure to convene annual general meetings within the prescribed time and late filing of various forms of notice. As advised by the Legal Counsel, those non-compliance incidents are time barred by the time limit for prosecution of three years under both Predecessor Companies Ordinance and Companies Ordinance. Taking into account the above and the fact that any loss, fee, expense and penalty of our Group in relation to non-compliance matters will be fully indemnified by our Controlling Shareholders, our Directors consider that the impact of them would be immaterial upon our Group. Save as the aforesaid, set out below are non-compliance of the members of our Group with the Predecessor Companies Ordinance and Companies Ordinance, which was not time barred as at the Latest Practicable Date:

Relevant section of the ordinance	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action	Estimated/actual fine/penalty
Sections 111 and 122 of the Predecessor Companies Ordinance	Ching Lee Construction had failed to lay its profit and loss accounts and balance sheets at its respective annual general meetings for 2012, 2013 and 2014 within the prescribed time limit.	The omission was due to the inadvertent oversight of our staff responsible for supervision on secretarial matters.	The audited accounts were laid or will be laid before the annual general meetings subsequently held or to be held.	Contrary to section 111 of the Predecessor Companies Ordinance or section 610 of the Companies Ordinance, the relevant company and every officer or responsible person who is in default shall be liable to a fine of HK\$50,000.
Sections 610 and 429 of the Companies Ordinance	Ching Lee Engineering had failed to hold its annual general meeting for 2013 within the prescribed time limit.  Ching Lee Foundation had failed to lay its profit and loss accounts and balance sheets at its respective annual general meetings for 2012, 2013 and 2014 within the prescribed time limit.  Ching Lee Foundation had failed to hold its annual general meeting for 2014 within the prescribed time limit.			Contrary to section 122 of the Predecessor Companies Ordinance or section 429 of the Companies Ordinance, the maximum penalty in respect of each offence is a fine of HK\$300,000 and 12 months' imprisonment.  As advised by the Legal Counsel, even if there is any prosecution, the chance of an imprisonment sentence being imposed is remote.

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<b>Relevant section of the ordinance</b>	<b>Particulars of the non-compliance</b>	<b>Reason(s) for the non-compliance</b>	<b>Remedial action</b>	<b>Estimated/actual fine/penalty</b>
Section 645 of the Companies Ordinance and section 158 of the Predecessor Companies Ordinance	<p>Ching Lee Engineering had failed to inform the Companies Registry of the change of address of its officers within the prescribed time limit in 2000.</p> <p>Ching Lee Construction had failed to inform the Companies Registry of the change of address of its officers within the prescribed time limit in 2011 and 2013.</p>	<p>The omission was due to the inadvertent oversight of our staff responsible for supervision on secretarial matters.</p>	<p>The relevant forms had been filed and will be filed.</p>	<p>Under the Predecessor Companies Ordinance, the relevant company and every officer who was in default shall be liable to a maximum principle fine of HK\$10,000 and a maximum daily default fine of HK\$300. Under the Companies Ordinance, the penalties are increased to HK\$25,000 for the maximum principle fine and HK\$700 for the maximum daily default fine.</p> <p>As advised by the Legal Counsel, the chance of prosecution is remote.</p>
Section 658 of the Companies Ordinance and section 92 of the Predecessor Companies Ordinance	<p>Ching Lee Construction had failed to inform the Companies Registry of the change of its registered office within the prescribed time limit in 2009.</p>	<p>The omission was due to the inadvertent oversight of our staff responsible for supervision on secretarial matters.</p>	<p>The relevant forms had been filed.</p>	<p>Under the Predecessor Companies Ordinance, the relevant company and every officer of the company who is in default shall be liable to a maximum principle fine of HK\$10,000 and, for continued default, to a maximum daily fine of HK\$300.</p> <p>Under the Companies Ordinance, the relevant company and every responsible person of the company, is liable to a fine at HK\$50,000, and in the case of a continuing offence, to a further fine of \$1,000 for each day during which the offence continues.</p> <p>As advised by the Legal Counsel, the chance of prosecution is remote.</p>

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Relevant section of the ordinance	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action	Estimated/actual fine/penalty
Section 417 of the Companies Ordinance	Each member of the Group incorporated in Hong Kong had failed to file the notification of resignation of auditor in 2015.			<p>Under the Companies Ordinance, the relevant company and every responsible person of the company, is liable to a fine at HK\$50,000 and to imprisonment for six months and, in the case of a continuing offence, to a further fine of \$1,000 for each day during which the offence continues.</p> <p>As advised by the Legal Counsel, the chance of prosecution is remote.</p>

### INTERNAL CONTROL MEASURES

Our Controlling Shareholders [have entered] into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities which may arise as a result of any non-compliances by our Group on or before the date on which the [REDACTED] becomes unconditional and dealings in shares of our Company first commence on the Stock Exchange. Further details of the Deed of Indemnity are set out in the section headed "E. Other information — 1. Tax and other indemnities" in Appendix V to this document.

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We have implemented the following internal control measures to prevent the recurrence of non-compliance incidents.

### **Internal control measures to prevent the recurrence of non-compliance incidents**

In order to continuously improve our Group’s corporate governance and to prevent recurrence of the abovementioned non-compliances in the future, our Group has, after taking into account the recommendations made by Baker Tilly Hong Kong Risk Assurance Limited (“**Baker Tilly**”), an independent internal control adviser engaged by us as disclosed in the paragraph headed “Review by Baker Tilly” below, adopted or will adopt the following measures:

#### *Construction Industry Council Ordinance related compliance requirements*

We have clearly set out in a manual all internal procedures for timely filing of relevant forms of notices and payment of levy to the Construction Industry Council. Our project managers will (i) ensure that the relevant forms of notices are filed to the Construction Industry Council within their prescribed timelines; (ii) upon receiving notice of assessment from the Construction Industry Council, notify our accounting and finance department to arrange for levy payment; (iii) create and update a register of levy payment for each project; and (iv) record the progress of each project (including date of commencement and completion, date and amount of payment received) and the status of notice and form.

#### *Pneumoconiosis and Mesothelioma (Compensation) Ordinance and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations related compliance requirements*

We have clearly set out in a manual all internal procedures for timely filing of relevant forms of notices and payment of levy to the Pneumoconiosis Compensation Fund Board. Our project managers will (i) ensure that the relevant forms of notices are filed to the Pneumoconiosis Compensation Fund Board within their prescribed timelines; (ii) upon receiving notice of assessment from the Pneumoconiosis Compensation Fund Board, notify our accounting and finance department to arrange for levy payment; (iii) create and update a register of levy payment for each project; and (iv) record the progress of each project (including date of commencement and completion, date and amount of payment received) and the status of notice and form.

#### *Companies Ordinance and Predecessor Companies Ordinance related compliance requirements*

Our company secretary, Mr. Chan Ming Hang, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants (for more of his information, please refer to the paragraph headed “Directors, senior management and staff — Company secretary”), will be responsible for keeping the filing register up to date from time to time and as required by the relevant Hong Kong laws and regulations and we will seek legal advice from external legal advisers to ensure on-going compliance.

#### *Post-listing compliance requirements*

- on 11 and 14 December 2015, our Directors 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 will engage Kingsway Capital Limited as our compliance adviser upon [REDACTED] to advise us on compliance matters under the GEM Listing Rules;

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- we will engage Baker Tilly to have an annual review on the adequacy and effectiveness of our internal control system for the year ending 31 December 2016, including areas of financial, operational, compliance and risk management; and
- on [●], we established an audit committee which comprises all independent non-executive Directors, namely Dr. Wai Wing Hong Onyx, Mr. Tong Hin Sum Paul and Mr. Chau Kam Wing Donald. 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.

### Review by Baker Tilly

In preparation for the [REDACTED], we engaged Baker Tilly to perform a detailed evaluation of the adequacy and effectiveness of our Group's internal control system including the areas of financial, operation, compliance and risk management. Following such review and evaluation performed by Baker Tilly, our Group has implemented all of the recommendations given by Baker Tilly on our internal control system.

In relation to the non-compliance incidents mentioned above, Baker Tilly has reviewed and provided recommendations to our internal control designs for preventing the recurrence of the above-mentioned non-compliance incidents. Key measures adopted and to be adopted by our Group pursuant to the recommendations of Baker Tilly are set out in the paragraph headed "Internal control measures — Internal control measures to prevent the recurrence of non-compliance incidents" in this section.

Baker Tilly performed follow up review in this connection and the result of the follow up review was that they did not note any statement of findings of material weakness or material insufficiency in our Group's internal control system.

### View of our Directors and the Sponsor

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of our executive Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules or the suitability of [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules having taken into account that (i) our Group has fully rectified all of the non-compliance incidents, where appropriate; (ii) our Group has implemented (or will implement where applicable) the measures described above to avoid recurrence of the non-compliance incidents; (iii) there were no recurrence of similar non-compliance incidents since the implementation of such measures; (iv) the non-compliance incidents did not involve any dishonesty or fraudulent act on the part of our executive Directors and in the case of filing of notices and levy payments to the Construction Industry Council and the Pneumoconiosis Compensation Fund Board, were commonplace in the construction industry, which as mentioned above have now been addressed to ensure compliance going forward; and (v) the executive Directors' commitment to implement changes demonstrates that their integrity is not at risk. In view of the above, our Directors believe, and the Sponsor concurs that, the internal control measures are sufficient and could effectively ensure a proper internal control system of our Group and prevent the recurrence of non-compliance incident.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have registered one trademark in Hong Kong and four domain name(s) in Hong Kong, which is/are being used or intended to be used by our Group.

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As at the Latest Practicable Date, we have not received any material claim against us for infringement of any trademark nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by us against third parties in relation to the infringement of intellectual property rights owned by us or third parties.

Please refer to the paragraph headed “Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix V to this document for further details of the registration of our trademarks and domain names.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Immediately after the completion of the [REDACTED], on the assumption that the [REDACTED] or any option which may be granted under the Share Option Scheme are not exercised, approximately [REDACTED]% of the issued share capital of our Company will be owned by JT Glory, which is in turn held as to 100.0% by Mr. Ng. In view of the above, Mr. Ng and JT Glory are the Controlling Shareholders of our Company within the meaning of the GEM Listing Rules.

### EXCLUDED BUSINESS

Mr. Ng, our Controlling Shareholder, also held (i) 10% interest in Kingle Limited, (ii) entire interest in Strong Knight, (iii) entire interest in Able Vantage and (iv) 96% interest in Ching Lee (Macau). There is a clear delineation between our Group’s business and the business of Kingle Limited, Strong Knight, Able Vantage and Ching Lee (Macau) (collectively, the “Excluded Companies”), and our Directors do not regard the Excluded Companies and our Group as directly competing with each other due to the nature of business and geographical differences. Further details of the Excluded Companies have been disclosed in the paragraph headed “Excluded business” in the section headed “History, Reorganisation and Group structure” of this document.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES

Having considered the reasons as set forth below in this section, our Directors are of the view that our Group is capable of carrying out our business independently from the Controlling Shareholders and their respective close associates after the [REDACTED].

#### Management independence

Our Board comprises three executive Directors and three independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests. Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates has a material interest.

Although Mr. Ng, being our Controlling Shareholder and executive Director, is also the sole director of JT Glory, being our Controlling Shareholder, our Board functions independently of the board of directors of JT Glory and other companies involving in the private investments which Mr. Ng may have apart from the investment in our Company. Since JT Glory is an investment holding company with no operative business, and that Mr. Ng is not involved in any other businesses that are in competition with our business, our Directors believe that the independence of the management of our Group will not be affected or compromised by the common directorship of Mr. Ng on our Board and his respective interests in JT Glory and other private investments.

In the circumstances where our executive Directors are required to abstain from voting due to potential conflicts of interest, our independent non-executive Directors will make their business judgment for further making decision in our Board. Given the experience of our independent non-executive Directors, details of which are set out in the section headed “Directors, senior management and staff” of this document, our Directors believe that the remaining Board can still function properly in the event that our executive Directors are required to abstain from voting.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### Operational independence

The registered general building contractor license and two registered specialist contractor licenses under the categories of foundation works and site formation respectively, all of which are registered with the Buildings Department under the name of Ching Lee Engineering, are material to our business operations in Hong Kong. For each of these licenses, there must be at least one technical director at Ching Lee Engineering who is also a director of Ching Lee Engineering and at least one authorised signatory to act for Ching Lee Engineering under the Buildings Ordinance. As at the Latest Practicable Date, Mr. Ng and Mr. Lui were the two technical directors and the two authorised signatories in respect of the registered general building contractor license and registered specialist contractor license under the category of site formation of Ching Lee Engineering. Nevertheless, Mr. Ng had been the only technical director and authorised signatory in respect of the registered specialist contractor license under the category of foundation works of Ching Lee Engineering during the Track Record Period and up to the Latest Practicable Date. In the event that Mr. Ng ceases to act as a technical director and authorised signatory for Ching Lee Engineering and no acceptable replacement could be appointed by our Group within a reasonable period of time, our Group's operations would be materially and adversely affected.

In order to operate independently from Mr. Ng, our Group submitted an application to the Buildings Department for the addition of Mr. Ng Chin Hong, our project manager and a member of our senior management, on 8 December 2015 as a new authorised signatory, and Mr. Tse Henry Lai Han, our project director and a member of our senior management, on 13 December 2015 as a new technical director and authorised signatory in respect of the registered specialist contractor license under the category of foundation works of Ching Lee Engineering in addition to Mr. Ng. It is expected that the approval process will take approximately three to four months. Our Directors believe that Mr. Ng Chin Hong and Mr. Tse Henry Lai Han can fulfill the requirements as stipulated in the Buildings Ordinance and our Group is not aware of any impediment against such two applications. Therefore, our Directors are of the view that our Group is able to operate independently from the Controlling Shareholders after the [REDACTED].

In addition, our Group has established our own organisational structure made of individual departments, each with specific areas of responsibilities. Our Group did not share our operational resources, such as contractors, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates during the Track Record Period. Our Group has also established a set of internal controls to facilitate the effective operation of our business. Our Group's customers and suppliers are all independent from our Controlling Shareholders. Our Group does not rely on our Controlling Shareholders or their respective close associates and has our independent access to customers and suppliers. Our Directors are of the view that our Group is able to operate independently from the Controlling Shareholders after the [REDACTED].

### Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and a strong credit profile to support its daily operations.

As at the Latest Practicable Date, we had obtained nine surety bonds issued by various insurance companies as required by the customers under the relevant contracts in an aggregate sum of approximately HK\$48 million. Ching Lee Engineering and/or Mr. Ng, Mr. Lui and/or Mr. Lam, as the directors of Ching Lee Engineering, provided back-to-back indemnities as requested by each of the insurance company in order to indemnify the relevant insurance company giving the surety bond against all losses and damages which the insurance company may incur by reason of having become a surety and given the performance guarantee in favour of the relevant customer as security for the due performance and observance of our obligations under the relevant contract entered into between Ching Lee Engineering and the customer.



## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Our Directors confirm that it is not uncommon for an insurance company to require the main contractor and/or the directors of a main contractor to provide a back-to-back indemnity to ensure the main contractor’s due performance and observance of a construction contract. Our Directors believe that our Group is capable of complying with the terms and conditions of the contracts Ching Lee Engineering entered into with the customers without triggering enforcement of the back-to-back indemnities given by Ching Lee Engineering and/or its directors and Ching Lee Engineering has duly complied with the terms and conditions of the relevant contracts in all material respects. We are in negotiations with the relevant insurance companies with a view to releasing such back-to-back indemnities and replacing them by a corporate guarantee provided by our Company upon [REDACTED].

During the Track Record Period, our Group has certain amounts due from/to related companies and Mr. Ng. Please refer to the section headed “Financial information — Amount due from/to related companies and a director” of this document and Note 21 (Amounts due from/to related companies and a director) of the Accountants’ Report set out in Appendix I to this document for further details. The net amount due from related companies and Mr. Ng in the sum of approximately HK\$54.1 million as at 30 September 2015 will be fully settled by (i) setting off against dividends to be declared and distributed by Ching Lee Engineering to Mr. Ng before [REDACTED]; and (ii) the net proceeds received by [REDACTED] from the [REDACTED] of the Sale Shares.

During the Track Record Period, our Group’s finance lease liabilities were secured by personal guarantees of Mr. Ng. Please refer to the section headed “Financial information — Obligation for finance lease” of this document and Note 23 (Obligations under finance leases) of the Accountants’ Report set out in Appendix I to this document for further details. All the outstanding finance lease liabilities would be settled by our net proceeds from the [REDACTED] from the Latest Practicable Date to 30 September 2016 (for details, please refer to the section headed “Future plans and use of proceeds” in this document and so all the corresponding personal guarantees provided by Mr. Ng will be released upon settlement.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders upon [REDACTED].

### NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has given certain non-competition undertakings in favour of our Company (for itself and as trustee for each of our subsidiaries) under the Deed of Non-Competition, pursuant to which each of Mr. Ng and JT Glory, jointly and severally, warrants and undertakes with our Company that, from the [REDACTED] and ending on the occurrence of the earlier of,

- (a) any of our Controlling Shareholders and his/her/its associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or ceases to be deemed as our Controlling Shareholder; or
- (b) the Shares cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to any reason),

he/she/it will not, and will procure any Controlling Shareholder and his/her/its close associates (collectively, “Controlled Persons”) and any company directly or indirectly controlled by our Controlling Shareholder (which for the purpose of the Deed of Non-Competition, shall not include any member of our Group) (the “Controlled Company”) not to (i) either on his/her/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or may compete with the business presently carried on by our Company or any of our subsidiaries or any other business that may be carried on by any of them from time to time during the term of the Deed of Non-Competition, in Hong Kong or such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including the provision of substructure building works services, superstructure building works services and repair, maintenance, alteration and addition works services (the "Restricted Business"). Such non-competition undertakings do not apply to:

- (i) the holding of Shares or other securities issued by our Company or any of our subsidiaries from time to time;
- (ii) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of our Controlling Shareholder and his/her/its associates (as "interest" is construed in accordance with the provisions contained in Part XV of the SFO) does not amount to more than 5% of the relevant share capital of the company in question;
- (iii) the contracts and other agreements entered into between our Group and our Controlling Shareholder and/or his/her/its close associates; and
- (iv) the involvement, participation or engagement of our Controlling Shareholder and/or his/her/its close associates in the Restricted Business in relation to which our Company has agreed in writing to such involvement, participation or engagement, following a decision by our independent non-executive Directors to allow such involvement, participation or engagement subject to any conditions our independent non-executive Directors may require to be imposed.

### **New business opportunity**

If any Controlling Shareholder and/or any Controlled Company is offered or becomes aware of any business opportunity directly or indirectly to engage in or own the Restricted Business (the "New Business Opportunity"):

- (a) he/she/it shall promptly notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration; and
- (b) he/she/it shall not, and shall procure that his/her/its Controlled Persons or Controlled Companies not to, invest or participate in any New Business Opportunity, unless such New Business Opportunity is rejected by the independent committee of our Board (the "Independent Board Committee") comprising of our independent non-executive Directors from time to time who do not have any material interest in the Restricted Business and/or the New Business Opportunity and the principal terms of which our Controlling Shareholder or his/her/its Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to our Company.

Our Controlling Shareholders may only engage in the New Business Opportunity if a notice is received from the Independent Board Committee confirming that the New Business Opportunity is not accepted by our Company and/or does not constitute competition with the Restricted Business.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### General undertakings

To ensure the performance of the above non-competition undertakings given under the Deed of Non-Competition, our Controlling Shareholders shall, among others:

- (a) when required by our Company, provide all information necessary for the Independent Board Committee to conduct annual examination, including all relevant financial, operational and market information and other necessary information, with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement thereof;
- (b) procure our Company to disclose to the public either in the annual, interim or quarterly report of our Company or issuing a public announcement in relation to any decisions made by our Independent Board Committee with regard to the compliance of the GEM Listing Rules and the terms of the Deed of Non-Competition and the enforcement thereof;
- (c) where our Independent Board Committee shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual, interim or quarterly report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-Competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules;
- (d) where our Independent Board Committee has rejected the New Business Opportunity referred to by our Controlling Shareholders as stipulated above regardless of whether our Controlling Shareholder would thereafter invest or participate in such New Business Opportunity, procure our Company to disclose to the public either in the annual, interim or quarterly report of our Company or an announcement of the decision of our Independent Board Committee regarding the decision on the New Business Opportunity and the basis thereof; and
- (e) during the period when the Deed of Non-Competition is in force, fully and effectually indemnify our Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of our Controlling Shareholders of any statement, warrant or undertaking made under the Deed of Non-Competition.

### CORPORATE GOVERNANCE MEASURES TO RESOLVE ACTUAL AND/OR POTENTIAL CONFLICTS OF INTERESTS BETWEEN OUR COMPANY AND OUR CONTROLLING SHAREHOLDERS

Our Directors recognise the importance of good corporate governance in protecting our Shareholders' interests as well as resolving actual and/or potential conflicts of interests between our Company and the Controlling Shareholders. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their associates has a material interest, the relevant Controlling Shareholder(s) will abstain from voting on the relevant resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable [REDACTED] Rules;

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders to ensure compliance with the Deed of Non-Competition by our Controlling Shareholders (the "Annual Review") and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) each of our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual reports, interim reports, quarterly reports or by way of announcements in compliance with the requirements of the GEM Listing Rules;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses; and
- (g) we [have appointed] Kingsway Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the GEM Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the [REDACTED].

## SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Share which may be issued pursuant to the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme), the following persons/entities will have an interest or a short position in our Shares or the underlying Shares, which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group and are therefore regarded as significant shareholders under the GEM Listing Rules:

Name	Nature of interest	Shares held as at the Latest Practicable Date		Shares held immediately following completion of the Reorganisation		Shares held immediately following the completion of the Capitalisation Issue and the [REDACTED]	
		Number of Shares	Percentage of shareholding	Number of Shares	Percentage of shareholding	Number of Shares	Percentage of shareholding
JT Glory	Beneficial owner	[1]	[100.0]	[100]	[100.0]	[REDACTED]	[REDACTED]
Mr. Ng	Interest in a controlled corporation	[1]	[100.0]	[100]	[100.0]	[REDACTED]	[REDACTED] <i>(Note)</i>

*Note:* JT Glory is wholly-owned by Mr. Ng. Under the SFO, Mr. Ng is deemed to be interested in all the Shares held by JT Glory pursuant to the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and the [REDACTED] (assuming no Shares are to be issued upon the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or the underlying Shares, which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group and are therefore regarded as significant shareholders under the GEM Listing Rules.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### DIRECTORS

Our Board has the ultimate responsibility for the management of our Company. Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors:

Name	Age	Position	Date of appointment as Director	Date of joining	Responsibilities in our Group
Ng Choi Wah (吳彩華)	49	Executive Director, Chairman and chief executive officer	16 November 2015	22 March 1999	Overseeing the corporate strategy, operational management as well as sales and marketing of our Group
Lui Yiu Wing (呂耀榮)	44	Executive Director	16 December 2016	26 May 2003	Overseeing the operational management of our Group
Lam Ka Fai (林嘉暉)	43	Executive Director	16 December 2016	26 May 2003	Overseeing the operational management of our Group
Wai Wing Hong Onyx (韋永康)	55	[Independent non-executive Director]	[●]	[●]	Providing independent judgement to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct
Tong Hin Sum Paul (湯顯森)	77	[Independent non-executive Director]	[●]	[●]	Providing independent judgement to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct
Chau Kam Wing Donald (周錦榮)	52	[Independent non-executive Director]	[●]	[●]	Providing independent judgement to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct

### Executive Directors

**Mr. NG Choi Wah (吳彩華)**, aged 49, is the founder of our Group. Mr. Ng is also the chairman of the nomination committee, and a member of the remuneration committee. He was appointed as a Director on 16 November 2015 and was designated as an executive Director on 16 December 2015. He was also appointed as the Chairman and the chief executive officer of our Group on 16 December 2015. Mr. Ng is responsible for overseeing the corporate strategy, operational management as well as sales and marketing of our Group. Mr. Ng is also a director of Ching Lee Construction, Ching Lee Engineering and Ching Lee Foundation. He has over 27 years of experience in providing building work services.

From January 1988 to May 1990, Mr. Ng was employed as a site agent or a sub-agent by Wing Mou Construction Co. Ltd. for various projects under the Housing Department, the Territory Development Department and the Architectural Services Department of Hong Kong. Mr. Ng was employed by W. M. Construction Limited as a project manager from November 1993 to January 1998. In March 1999, Mr. Ng acted as a director of Ching Lee Engineering.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

In November 1990, Mr. Ng graduated with a higher diploma in building from City Polytechnic of Hong Kong (currently known as the City University of Hong Kong). In April 2002, he received his bachelor's degree in applied science in construction management and economics from Curtin University of Technology in Australia by distance learning.

Mr. Ng was registered as a Chartered Environmentalist by the Society for the Environment in January 2012. He was also elected as a member of the Association of Building Engineers (currently known as the Chartered Association of Building Engineers) in the United Kingdom in July 2013 and is currently a chartered building engineer.

Mr. Ng is also dedicated in community service. In February 2015, he was appointed as an honorary treasurer by the Hong Kong General Building Contractors Association for the period between 2015 and 2017. Mr. Ng was also appointed as a vice president of east kowloon region of the Scout Association in Hong Kong in June 2015.

For Mr. Ng's interest in the Shares within the meaning of Part XV of the SFO, please refer to the paragraph headed "C. Further information about Directors and substantial Shareholders — 1. Directors — (a) Disclosure of interests of Directors" in Appendix V to this document.

**Mr. LUI Yiu Wing (呂耀榮)**, aged 44, was appointed as an executive Director on 16 December 2015. Mr. Lui is responsible for overseeing the operational management of our Group. Mr. Lui is also a director of Ching Lee Construction and Ching Lee Engineering. He has over 15 years of experience in the building works industry. He became a registered architect of the Architects Registration Board in October 1999. In May 2003, Mr. Lui joined our Group and acted as a director of Ching Lee Construction. He was then promoted to senior project manager in October 2012.

Mr. Lui graduated with a bachelor's degree in social science from the Chinese University of Hong Kong in December 1994. He then received his master's degree in architecture from the Chinese University of Hong Kong in December 1997.

**Mr. LAM Ka Fai (林嘉暉)**, aged 43, was appointed as an executive Director on 16 December 2015. In May 2003, Mr. Lam joined our Group and acted as a director of Ching Lee Construction and is currently responsible for overseeing the operational management of our Group. Mr. Lam is also a director of Ching Lee Construction and Ching Lee Engineering. He has over 18 years of experience in the building works industry. In January 2014, he became a member of the Chartered Institute of Building and a chartered building engineer of the Chartered Association of Building Engineers, in the United Kingdom.

Mr. Lam worked as a project co-ordinator at W.M. Construction Limited from September 1997 to April 1998. From April 1999 to July 2014, Mr. Lam worked as a project co-ordinator at Hien Lee Engineering Co., Ltd and his last position was project manager. Since July 2014, Mr. Lam has served our Group as a senior E&M project manager.

In November 2007, he obtained a bachelor's degree in engineering in building engineering (building services engineering) from the City University of Hong Kong. In October 2011, Mr. Lam obtained a master's degree in science in project management from The Hong Kong Polytechnic University. He became a member of the Australian Institute of Building in July 2013.

None of our executive Directors has been a director of any listed company during the three years preceding the date of this document.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### Independent Non-executive Directors

**Dr. WAI Wing Hong, Onyx (韋永康)**, aged 55, was appointed as an independent non-executive Director on [date]. He is also the chairman of the remuneration committee and a member of the audit and nomination committees of our Company [with effect from the [REDACTED]]. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Dr. Wai is currently a professor in the Department of Civil and Environmental Engineering of The Hong Kong Polytechnic University. He joined the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) as a lecturer since October 1992 and has worked in the University ever since.

Dr. Wai obtained his bachelor’s degree in applied science in civil engineering at the University of Windsor in Windsor, Canada in June 1984. In August 1986, he received his master’s degree in science in the Ohio State University in the USA. In December 1991, Dr. Wai obtained his doctor of philosophy at the same university. In December 2014, he received a merit award in “Study of Green Roof (Landscape Research Study Category)” from The Hong Kong Institute of Landscape Architects. Dr. Wai also has a number of professional appointments. He is currently a council member of the Hong Kong Institute of Science. Dr. Wai was admitted as a member of the Hong Kong Institution of Engineers in June 2000. Dr. Wai has also contributed to various journals and publications, including, among others, “Environmental Pollution” and “Journal of Hydroinformatics”.

**Mr. TONG Hin Sum, Paul (湯顯森)**, aged 77, was appointed as an independent non-executive Director on [date]. He is also a member of the audit and nomination committees of our Company [with effect from the [REDACTED]]. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

Mr. Tong was called to the bar in 1989 and is currently a barrister. He was appointed as a life fellow of St. John’s College, the University of Hong Kong, in 2008. In March 2009, he was also appointed as a panel member of the Securities and Futures Appeals Tribunal for the period between April 2009 and March 2011.

Mr. Tong obtained his bachelor’s degree in arts from the University of Hong Kong in November 1963. He then furthered his studies in the University of Cambridge, England, and obtained his bachelor’s degree in arts and master’s degree in arts in June 1987 and February 1991, respectively. Mr. Tong also went to Yale University and obtained a master’s degree in sacred theology in July 1971.



## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. CHAU Kam Wing Donald (周錦榮)**, aged 52, was appointed as an independent non-executive Director on [date]. He is also the chairman of the audit committee and a member of the nomination committee of our Company [with effect from the [REDACTED]]. He is primarily responsible for providing independent judgment to bear on issues of strategy, policy, performance, accountability, resource, key appointments and standard of conduct of our Group.

He has over 20 years of experience in audit, tax and financial management. Mr. Chau is an executive director of Winox Holdings Limited (stock code: 6838), the issued shares of which is listed on the Stock Exchange, since March 2011. He is also an independent non-executive director of China Water Affairs Group Limited (stock code: 855) since March 2007, Eco-Tek Holdings Limited (stock code: 8169) since March 2008, Carpenter Tan Holdings Limited (stock code: 837) since November 2009, 浙江長安仁恒科技股份有限公司 (Zhejiang Chang’an Renheng Technology Co., Ltd.\*) (stock code: 8139) since May 2014, the issued shares of which are listed on the Stock Exchange. From November 2009 to June 2015, Mr. Chau was also an independent non-executive director of 浙江世寶股份有限公司 (Zhejiang Shibao Company Limited\*) (Hong Kong stock code: 1057 and Shenzhen stock code: 2703), the issued shares of which are listed on the Stock Exchange and Shenzhen Stock Exchange.

Mr. Chau obtained a master’s degree in business administration from the University of San Francisco in the USA in December 2000. He is also a fellow member of the Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants.

### **Disclosure of relationships as required under Rule 17.50(2) of the GEM Listing Rules**

Each of our Directors and senior management is independent from and not related to any of our Directors or senior management.

Save as disclosed above and elsewhere in this document (if any), each of our Directors confirmed with respect to himself that: (i) apart from our Company, he has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (iii) he did not have any other relationship with any other Directors, senior management, substantial shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; (iv) he does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about our Directors and substantial shareholders — 1. Directors — (a) Disclosure of interests of Directors” in Appendix V to this document; (v) he does not have any interest in any business which competes or may compete, directly or indirectly, with us, which is discloseable under the GEM Listing Rules, save as disclosed in the section headed “Relationship with Controlling Shareholders” of this document; and (vi) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### SENIOR MANAGEMENT

Our executive Directors and members of senior management are responsible for the day-to-day management of our business. The following table sets out certain information concerning our senior management:

Name	Age	Position	Date of Appointment
Tse Henry Lai Han (謝禮恒)	50	Project director	1 August 2013
Cheung Lok Sang (張樂生)	63	Manager estimating	15 October 2013
Lee Tsz Yuen (李子源)	37	Contract manager	10 February 2015
Au Yiu Kwong (區耀光)	61	Safety officer	10 June 2013
Law Chun Man (羅振文)	32	Electrical and mechanical manager	13 October 2014
Ng Chin Hong (吳展康)	50	Project manager	8 December 2014

**Mr. TSE Henry Lai Han (謝禮恒)**, aged 50, joined our Group in August 2013 and is currently a project director. He is responsible for overseeing the overall operational management of our Group, in particular, on foundation works and contract administration.

Mr. Tse has considerable experience in property and development projects management. Prior to joining our Group, from October 2011 to July 2013, Mr. Tse served as a deputy general manager (development) in a group company in the K. Wah Group. Since September 2004, he is also an independent non-executive director of Tern Properties Company Limited (stock code: 277), the issued shares of which are listed on the Stock Exchange.

Mr. Tse received his bachelor's degree in applied science majoring in civil engineering and master's degree in applied science from The University of British Columbia in Vancouver, Canada in May 1987 and November 1989, respectively.

Mr. Tse was a director of Full Source Company Limited, a company incorporated in Hong Kong, prior to its dissolution on 13 January 2012 by way of striking off pursuant to section 291 of the Predecessor Companies Ordinance. Mr. Tse confirmed that the said company was solvent and inactive at the time of being struck off and that its dissolution had not resulted in any liability or obligation imposed against him.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. Cheung Lok Sang** (張樂生), aged 63, joined our Group in October 2013 and is currently a [manager estimating]. He is responsible for overseeing tendering works of our Group.

Mr. Cheung has considerable experience in surveying and engineering. His working experience prior to joining our Group is listed in the table below:

Entities	Position	Duration
Frank & Vargeson (HK) Ltd.	Quantity surveyor	1980–1983
China State Construction Engineering (Hong Kong) Ltd.	Deputy manager (estimate department)	1986–1989
Frank & Vargeson (HK) Ltd.	Quantity surveyor	1989–1997
China State Construction Limited	Deputy contracts manager and subsequently deputy manager of tendering department	April 1997– January 2009
Chian Overseas (Hong Kong) Limited	Deputy Manager of tendering department	January 2010 — September 2013

**Mr. LEE Tsz Yuen** (李子源), aged 37, joined our Group in March 2007 and is currently a contract manager. He is responsible for overseeing the operations of sub-vetting and quantity surveying.

Mr. Lee has considerable experience in surveying and building works. His working experience prior to joining our Group is listed in the table below:

Entities	Position	Duration
Diamond Term Ltd.	Surveyor	May 2003–February 2006
Diamond Term Decoration Ltd.	Quantity surveyor	March 2006–September 2006
WH Interior Design & Contracting Co. Ltd.	Assistant quantity surveyor	November 2006–March 2007

In July 2008, Mr. Lee obtained a higher diploma in quantity surveying from (Hong Kong) Continuous Professional Education Centre.

**Mr. AU Yiu Kwong** (區耀光), aged 61, joined our Group in June 2013 and is currently a safety officer. He is responsible for the overall safety management, supervision and training of our Group. Mr. Au has considerable experience in building works safety.

In February 2009, Mr. Au obtained his bachelor's degree in science in health and safety from the Curtin University of Technology in Australia by distance learning. Mr. Au was admitted by the Labour Department of the HKSAR as a trainer for the construction industry mandatory basic safety training course & revalidation course and the container handling industry mandatory basic safety training course in December 2005. Mr. Au is currently a registered safety officer. He is also a registered electrical worker (grade A) recognised by the Electrical & Mechanical Services Department of the HKSAR.

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

**Mr. LAW Chun Man (羅振文)**, aged 32, joined our Group in October 2014 and is currently an [electrical and mechanical manager]. He is responsible for the day-to-day coordination and supervision of electrical and mechanical works of our Group.

Mr. C.M. Law has considerable experience in the building and engineering industry. He joined Interlite (Asia) Limited as an engineer from January 2006 to March 2011. From March 2011 to May 2012, he served as a project engineer for Thorn Security (Hong Kong) Ltd. Prior to joining our Group, Mr. C.M. Law was employed by Hsin Chong Construction (Engineering) Limited as a building services engineer from May 2012 to October 2014. Mr. C.M. Law obtained his bachelor's degree in engineering in fire engineering from the University of Central Lancashire in August 2015 by distance learning.

**Mr. Ng Chin Hong (吳展康)**, aged 50, joined our Group in December 2014 and is currently a project manager. He is responsible for the management and coordination of day-to-day site works, in particular, foundation and substructure works of our Group.

Mr. C.H. Ng has considerable experience in the building works industry. Mr. C.H. Ng served a number of construction and engineering companies before joining our Group, including Leighton Contractors (Asia) Limited from July 1989 to August 1994 (with last position as a senior engineer), China Overseas Civil Engineering Limited from December 1994 to January 1999 (as a sub-agent), and Chun Wo Construction & Engineering Co., Ltd from June 2000 to October 2000 and from September 2002 to March 2004 (as a sub-agent).

Mr. C.H. Ng obtained a higher diploma in civil engineering (municipal) studies at Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1989. He was also awarded an endorsement certificate in building organisation and supervision from Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1990.

### **COMPANY SECRETARY**

Mr. Chan Ming Hang, aged 33, is the company secretary of our Company. He is primarily responsible for the company secretarial matters of our Group.

Mr. Chan has over 10 years of experience in the fields of accounting, auditing and compliance matters of listed companies in Hong Kong. He was employed by Deloitte Touche Tohmatsu from August 2004 to January 2014 and his last position was senior manager. Mr. Chan has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2009.

Mr. Chan obtained his postgraduate certificate in professional accounting from the City University of Hong Kong in November 2004.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### COMPLIANCE OFFICER

Mr. Ng Choi Wah (吳彩華) was appointed as the compliance officer (Rule 5.19 of the GEM Listing Rules) of our Company on 21 December 2015. Details of the qualification and experience of Mr. Ng have been disclosed in the paragraph headed “Executive Directors” of this section.

### AUTHORISED REPRESENTATIVES

Mr. Ng and Mr. Lui are the authorised representative of our Company.

### BOARD COMMITTEES

#### *Audit committee*

We have established an audit committee pursuant to a resolution of our Directors passed on [●] in compliance with Rule 5.28 of the GEM Listing Rules and with the written terms of reference in compliance with the Corporate Governance Code (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The primary duties of our audit committee are (i) to make recommendations to our Board on the appointment and removal of external auditors, (ii) to review the financial statements and material advice in respect of financial reporting process of our Group, (iii) oversee the internal control systems of our Group and (iv) to monitor any continuing connected transactions. Our audit committee currently consists of all three of our independent non-executive Directors, namely Dr. Wai Wing Hong Onyx, Mr. Tong Hin Sum Paul and Mr. Chau Kam Wing Donald. Mr. Chau Kam Wing Donald is the chairman of the audit committee.

#### *Remuneration committee*

We have established a remuneration committee pursuant to a resolution of our Directors passed on [●] in compliance with Rule 5.34 of the GEM Listing Rules and with the written terms of reference in compliance with the Code. The primary duties of our remuneration committee are (i) to review and make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; (ii) other remuneration-related matters, including benefits-in-kind and other compensation payable to our Directors and senior management; and (iii) to review performance based remunerations and to establish a formal and transparent procedure for developing policy in relation to remuneration. Our remuneration committee currently consists of an executive Director, namely Mr. Ng, and two of our independent non-executive Directors, namely Dr. Wai Wing Hong Onyx and Mr. Chau Kam Wing Donald. Dr. Wai Wing Hong Onyx is the chairman of our remuneration committee.

#### *Nomination committee*

We have established a nomination committee pursuant to a resolution of our Directors passed on [●] with written terms of reference in compliance with the Code. The primary duties of our nomination committee are (i) to review the structure, size, composition and diversity of our Board on a regular basis; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive Directors; (iv) to make recommendations to our Board on relevant matters relating to the appointment or re-appointment of Directors; and (v) to make recommendations to our Board regarding candidates to fill vacancies on our Board. Our nomination committee currently consists of one executive Director, namely Mr. Ng, and two of our independent non-executive Directors, namely Dr. Wai Wing Hong Onyx and Mr. Tong Hin Sum Paul. Mr. Ng is the chairman of the nomination committee.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### Corporate Governance

Except for the deviation from provision A.2.1 of the Corporate Governance Code, our Company's corporate governance practices have complied with the Corporate Governance Code. Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ng is the Chairman and the chief executive officer of our Company. In view that Mr. Ng has been assuming day-to-day responsibilities in operating and managing our Group since 1998 and the rapid development of our Group, the Board believes that with the support of Mr. Ng's extensive experience and knowledge in the business of the Group, vesting the roles of both Chairman and chief executive officer of our Company in Mr. Ng strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to our Group.

The Directors consider that the deviation from provision A.2.1 of the Corporate Governance Code is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for our Group's operations, and sufficient checks and balances are in place.

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole. Our Directors are aware that upon [REDACTED], we are expected to comply with such code provisions. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in our interim report and annual report in respect of the relevant period. Save as disclosed in the above, we will comply with the code provisions set out in the Corporate Governance Code after [REDACTED].

### Compliance adviser

We will appoint Kingsway Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be of a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchase;
- (3) where our Company proposes to use the proceeds of the [REDACTED] in a manner different from that detailed in this document or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this document; and
- (4) where the Stock Exchange makes an enquiry of our Company under Rule 17.11 of the GEM Listing Rules regarding unusual movements in the price or trading volume of the Shares.

Pursuant to Rule 6A.24 of the GEM Listing Rules and the compliance adviser agreement entered into between our compliance adviser and our Company, our compliance adviser will, among others:

- (1) ensure our Company is properly guided and advised as to compliance with the GEM Listing Rules, the SFO and the Takeovers Code;
- (2) act as one of our principal channels of communication with the Stock Exchange, including accompanying our Company to any meeting with the Stock Exchange, unless otherwise requested by the Stock Exchange;

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

- (3) in relation to any application by our Company for a waiver from any of the requirement in Chapters 19 and 20 of the GEM Listing Rules, advise our Company on our obligations and in particular the requirement to appoint an independent financial adviser (save for those waivers the respective applications of which have been submitted to the Stock Exchange prior to [REDACTED] and disclosed in this document); and
- (4) assess the understanding of all new appointees to our Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, if any inadequacy is identified, recommend necessary remedial steps to our Directors.

### **Term**

The term of appointment of our compliance adviser shall commence on the [REDACTED] and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the [REDACTED], subject to early termination.

### **Duties of our Company**

Our Company shall fully comply with and discharge our responsibilities under the GEM Listing Rules and other applicable laws, regulations and codes relating to securities and corporate governance that are applicable to our Company.

During the term of the compliance adviser agreement, our Company must consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the circumstances as required under Rule 6A.23 of the GEM Listing Rules.

### **Termination**

The compliance adviser agreement can be terminated by either party upon giving the other party not less than one month's prior written notice.

## **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our Directors and senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our contribution to the pension scheme. Our Remuneration Committee determines the salaries of our Directors based on each Director's qualification, position and seniority.

The aggregate amount of remuneration (including salaries, allowances and benefits in kind (where applicable)) paid to our Directors for the two years ended 31 March 2015 and the six months ended 30 September 2015 was approximately HK\$2.4 million, HK\$3.8 million and HK\$1.8 million, respectively. Under the arrangement currently in force, the aggregate remuneration to our Directors paid or payable (excluding any commission or discretionary bonus) in respect of the year ending 31 March 2016 is estimated to be approximately HK\$3.7 million.

The aggregate amount of remuneration (including salaries, allowances and benefits in kind (where applicable)) paid to our five highest paid individuals for the two years ended 31 March 2015 and the six months ended 30 September 2015 was approximately HK\$4.6 million, HK\$6.0 million and HK\$2.6 million, respectively.

Our policy concerning the remuneration of our Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our business.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

Except as disclosed in this document, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

### STAFF

#### Function

As at 31 March 2014 and 2015, 30 September 2015 and the Latest Practicable Date, the breakdown of our Group's staff by principal functions is set out below:

Functions	Number of staff as at 31 March 2014	Number of staff as at 31 March 2015	Number of staff as at 30 September 2015	Number of staff as at the Latest Practicable Date
Administrative	10	12	12	15
Construction site makers	27	24	18	18
Director	3	3	3	3
Project management	18	24	27	33
Purchasing	1	1	1	1
Safety	3	6	7	8
Tendering	1	2	2	2
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>63</u>	<u>72</u>	<u>70</u>	<u>80</u>

#### Staff costs

The staff costs of our Group (including salaries, allowances, other benefits and contribution to defined contribution retirement plan) for the two years ended 31 March 2015 and the six months ended 30 September 2015 amounted to approximately HK\$13.3 million, HK\$25.4 million and HK\$12.6 million respectively.

We have participated and will continue to participate in the mandatory provident fund scheme prescribed by the Mandatory Provident Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of our employees. We also provide medical benefits to our employees. Our employees are remunerated with monthly salaries and/or discretionary bonuses based on performance.



## SHARE CAPITAL

### SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Capitalisation Issue and the [REDACTED] (without taking into account the exercise of the Shares which may be issued pursuant to the exercise of the [REDACTED] or the options which may be granted under the Share Option Scheme):

<i>Authorised share capital:</i>	<i>Nominal value</i>
	<i>HK\$</i>
<u>[10,000,000,000]</u> Shares	<u>[100,000,000]</u>
<i>Shares in issue or to be issued, fully paid or credited as fully paid:</i>	<i>Nominal value</i>
	<i>HK\$</i>
[100] Shares in issue	[1]
<u>[REDACTED]</u> Shares to be issued under the Capitalisation Issue	<u>[REDACTED]</u>
<u>[REDACTED]</u> Shares to be issued under the [REDACTED]	<u>[REDACTED]</u>
<i>Total:</i>	
<u>[REDACTED]</u> Shares	<u>[REDACTED]</u>

### ASSUMPTIONS

The above table assumes the [REDACTED] become unconditional and the issue of Shares pursuant to the Capitalisation Issue and the [REDACTED] are made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] 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 general mandate given to the Directors to allot and issue or repurchase Shares referred to in the paragraph headed “General mandate to issue Shares” or the paragraph headed “General mandate to repurchase Shares” below, as the case may be.

### RANKING

Other than the right to participate in the Capitalisation Issue, the [REDACTED] will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued in this document and, in particular, will rank in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this document.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the [REDACTED] and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

## SHARE CAPITAL

### CAPITALISATION ISSUE

Pursuant to the written resolutions of the sole Shareholder passed on [●], subject to the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to allot and issue a total of [REDACTED] Shares to the existing Shareholder, credited as fully paid at par by way of capitalisation of the sum of HK\$[REDACTED] standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the Shares in issue (save for the right to participate in the Capitalisation Issue).

### SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole Shareholder passed on [●], our Company has conditionally adopted the Share Option Scheme, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this document.

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the paragraph headed “Conditions of the [REDACTED]” under the section headed “Structure and conditions of the [REDACTED]” of this document being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares with a total nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (excluding Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme); and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors as referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option which may be granted under the Share Option Scheme.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws or the Articles; or
- (c) it is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed “A3. Written resolutions of the sole Shareholder passed on [●]” in Appendix V to this document.

## SHARE CAPITAL

### GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the paragraph headed “Conditions of the [REDACTED]” under the section headed “Structure and conditions of the [REDACTED]” of this document being fulfilled, our Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (excluding the Shares which may be issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws, rules and regulations and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “A6. Repurchase by our Company of our own securities” in Appendix V to this document.

The general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws or the Articles; or
- (c) it is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed “A3. Written resolutions of the sole Shareholder passed on [●]” in Appendix V to this document.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. For details, please see the paragraph headed “2. Articles of Association — Alteration of capital” in Appendix IV to this document.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, all or any of the special rights attached to the Shares or any class of Shares may 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. For details, please see the paragraph headed “2. Articles of Association — Variation of rights of existing shares or classes of shares” in Appendix IV to this document.

## FINANCIAL INFORMATION

*You should read this section in conjunction with our combined financial statements, including the notes thereto, as set out in the Accountants’ Report set out in Appendix I to this document. Our Group’s combined financial statements 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 document.*

### OVERVIEW

Our Group is principally engaged as a main contractor in Hong Kong in the provision of (i) substructure building works services; (ii) superstructure building works services; and (iii) repair, maintenance, alteration and addition (“RMAA”) works services.

Our Group was founded in 1998 and have been operating for over 17 years. As a main contractor, our Group is responsible for the delegation works to our subcontractors under supervision and management by our project team, and generally includes overall project management and supervision of works conducted by our subcontractors to ensure their conformity to contractual specification and that projects are completed on time and within budget.

Our services range from substructure building works, superstructure building works to RMAA works. During the Track Record Period, the scope of our substructure building works projects consisted of demolition and hoarding, site formation and foundation works, the scope of our superstructure building works projects consisted of development and redevelopment of church, educational, residential, and commercial buildings, while the scope of our RMAA works consisted of improvement, fitting-out works, renovation works, restoration works and external works.

During the Track Record Period and up to the Latest Practicable Date, we completed 14 projects. As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$519.8 million. These on-going projects are expected to be completed by the year ending 31 March 2017.

### BASIS OF PRESENTATION

Our Company was incorporated as an exempted company under the laws of the Cayman Islands on 16 November 2015 with limited liability to act as the ultimate holding company of our Group. Before the completion of the Reorganisation, Ching Lee Holdings Limited is wholly owned by Mr. Terence Ng. In preparation of the [REDACTED], the companies comprising our Group underwent the Reorganisation, further details of which are explained in the section headed “History and Development — Reorganisation” to this document.

Pursuant to the completion of Reorganisation, on 15 December 2015, our Company has become the holding company of the companies now comprising our Group. Our Group comprising our Company and our Subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the combined financial statements has been prepared as if our Company had always been the holding company of our Group.

## FINANCIAL INFORMATION

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period and the statements of financial position as at 31 March 2014 and 2015 as set out in the Accountants' Report in Appendix I to this document are prepared as if the current group structure had been in existence throughout the Track Record Period.

When necessary, adjustments are made to the financial statements of our Subsidiaries to bring their accounting policies into line with our Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of our Group are eliminated in full on combination.

### CRITICAL ACCOUNTING POLICIES

#### Key Sources of Estimation Uncertainty

The critical accounting judgements that our Group uses in applying its accounting policies are set out in note 5 of the notes the Accountant's Report set out in Appendix I to this document. In the application of our Group's accounting policies, our Directors are required to make judgement, estimates and assumptions about the carrying amount of assets and liabilities that are readily apparent from other sources. The estimate and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

#### *(i) Construction contract*

Construction contract revenue is recognised according to the percentage of completion of individual construction contract which requires the estimation of contract costs and gross profit margin of each contract. Contract costs and gross profit margin of individual contract is determined based on budget of the contract which was prepared by the management. In order to ensure that the total estimated contract costs are accurate and up-to-date such that gross profit margin can be estimated reliably, management reviews the costs incurred to date and costs to completion regularly, in particular in the case of costs over-runs and revise the estimated contract costs where necessary. Recognition of variations and claims also requires significant estimation and judgement by the management.

Notwithstanding that, our management regularly reviews and revises the estimates of both contract costs and gross profit margin for the construction contracts as the contracts progress, the actual contract costs and gross profit margin may be higher or lower than the estimations and that will affect the revenue and gross profit recognised.

#### *(ii) Impairment of receivables*

The impairment policy for bad and doubtful debts of the Group is based on management's evaluation of collectability and ageing analysis of receivables (including amounts due from related parties) and on the specific circumstances for each account. Judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial condition of these customers was to deteriorate resulting in an impairment of their ability to make payments, additional allowance will be required.

## FINANCIAL INFORMATION

### *(iii) Impairment of non-financial assets receivables*

Management assesses impairment by evaluating conditions specific to our Group that may lead to impairment of non-financial assets. When an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, our directors take into consideration assumptions that are mainly based on market conditions existing at the reporting date and approximate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by our Group.

### **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 “Risk Factors”:

**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) repair, maintenance, alteration and addition (“**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. Our Group has to undergo the tendering process for every new project.

We cannot assure 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.

**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 estimate. 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.

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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 adversely and materially affected.

### **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 [29.1]%, whereas the respective [trade receivables] accounted for approximately [25.3]% 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 retention receivables from customers and [trade receivables’ turnover days], please refer to the paragraph headed “Financial Information — [Net Current Assets — 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.

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;

## FINANCIAL INFORMATION

- potentially restrict us from pursuing 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 due to "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.

**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\$[80.5] million, HK\$[152.3] million and HK\$[70.3] million, representing approximately [48.6]%, [46.3]% 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.

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.



## FINANCIAL INFORMATION

### SUMMARY OF COMBINED FINANCIAL AND OPERATING DATA

The following combined statements of comprehensive income and combined statements of financial position are extracted from the Accountants' Report set forth in Appendix I to this document.

#### Combined statements of comprehensive income

	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Revenue	200,183	377,356	154,308	154,909
Cost of revenue	<u>(165,674)</u>	<u>(328,560)</u>	<u>(131,823)</u>	<u>(132,307)</u>
Gross Profit	34,509	48,796	22,485	22,602
Other income and gains	581	830	426	495
Administrative and other operating expenses	(22,746)	(25,113)	(10,557)	(12,574)
Finance costs	<u>(990)</u>	<u>(1,700)</u>	<u>(788)</u>	<u>(925)</u>
Profit before income tax	11,354	22,813	11,566	9,598
Income tax	<u>(1,934)</u>	<u>(4,335)</u>	<u>(2,020)</u>	<u>(1,737)</u>
Profit and total comprehensive income for the year/period	<u><u>9,420</u></u>	<u><u>18,478</u></u>	<u><u>9,546</u></u>	<u><u>7,861</u></u>

## FINANCIAL INFORMATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Revenue

Our Group's revenue was derived from (1) substructure building works services; (2) superstructure building works services; and (3) RMAA works services in Hong Kong. Revenue derived from these principal activities comprises the followings:

	Year ended 31 March		Six months ended 30 September	
	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Substructure building work services	75,280	131,520	65,988	36,913
Superstructure building work services	31,597	221,009	71,360	115,687
RMAA work services	<u>93,306</u>	<u>24,827</u>	<u>16,960</u>	<u>2,309</u>
	<u>200,183</u>	<u>377,356</u>	<u>154,308</u>	<u>154,909</u>

All our projects during the Track Record Period were located in Hong Kong. We undertook projects in both public and private sectors. The following table sets forth the breakdown of our revenue by public and private sectors during the Track Record Period:

	Year ended 31 March				Six months ended 30 September			
	2014		2015		2014		2015	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Public sector	10,104	5.0%	955	0.3%	599	0.4%	—	0.0%
Private sector	<u>190,079</u>	<u>95.0%</u>	<u>376,401</u>	<u>99.7%</u>	<u>153,709</u>	<u>99.6%</u>	<u>154,909</u>	<u>100.0%</u>
	<u>200,183</u>	<u>100.0%</u>	<u>377,356</u>	<u>100.0%</u>	<u>154,308</u>	<u>100.0%</u>	<u>154,909</u>	<u>100.0%</u>

## FINANCIAL INFORMATION

The following table sets forth a breakdown of our revenue by (1) substructure building works services; (2) superstructure building works services; and (3) RMAA works services during the Track Record Period

	Type	Sector	Year ended 31 March				Six months ended 30 September			
			2014		2015		2014		2015	
			HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Substructure building works services</i>										
P2 (Note 2)	Substructure building works services for a church located at Tsim Sha Tsui, Hong Kong	Private	21,947	11.0	—	—	—	—	—	—
P3	Substructure building works services for a residential development located at Stanley, Hong Kong	Private	20,156	10.1	16,907	4.5	15,640	10.1	—	—
P6	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	Private	25	0.1	48,052	12.7	18,267	11.9	20,512	13.2
P9	Substructure building works services for a hotel development located at Causeway Bay, Hong Kong	Private	6,280	3.1	22,494	6.0	9,870	6.4	1,240	0.8
P10	Substructure building works services for a proposed commercial development located at Central, Hong Kong	Private	8,401	4.2	20,087	5.3	7,729	5.0	14,971	9.7
<i>Superstructure building works services</i>										
P2 (Note 2)	Superstructure building works services for a church located at Tsim Sha Tsui, Hong Kong	Private	26,522	13.2	66,910	17.7	23,469	15.2	—	—
P4	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	Private	219	0.1	53,413	14.1	16,890	11.0	28,360	18.3
P5	Superstructure building works for a [residential development] located at Castle Peak, New Territories, Hong Kong	Private	4,376	2.2	53,187	14.1	23,032	14.9	3,923	2.5
P7	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	Private	—	—	23,656	6.3	4,201	2.7	32,743	21.1
P8	Superstructure building works services for a residential development located at Stanley, Hong Kong	Private	—	—	22,500	6.0	3,569	2.3	25,551	16.5
<i>RMAA works services</i>										
P1	RMAA works services for a residential development located at Stanley, Hong Kong	Private	81,614	40.8	20,885	5.5	15,309	9.9	—	—
Other (Note 1)			30,643	15.2	29,265	7.8	16,332	10.6	27,609	17.9
			<u>200,183</u>	<u>100.0</u>	<u>377,356</u>	<u>100.0</u>	<u>154,308</u>	<u>100.0</u>	<u>154,909</u>	<u>100.0</u>

## FINANCIAL INFORMATION

*Notes:*

1. Others mainly represent those projects contributing revenue of HK\$20 million or less to our Group for the two years ended 31 March 2015 and the six months ended 30 September 2015.
2. This project comprised two revenue segments — substructure building works services and superstructure building works.

Our Group generally adopts a cost-plus pricing model in setting our tender price for our construction contracts. Our pricing policy takes into account various factors including: (i) the nature, scope and complexity of the project; (ii) estimated direct labour costs; (iii) estimated subcontracting charges; (iv) estimated type and number of machinery required; (v) estimated type and amount of materials needed; (vi) insurance cost; (vii) expected project timetable provided by customer; (viii) prevailing market condition; and (ix) relationship with and background of our customer.

During the Track Record Period, our Group completed 14 construction projects to both private sector and public sector. According to the Ipsos Report, public sector projects refer to projects commissioned by the Government (including the Development Bureau, Civil Engineering and Development Department, Drainage Services Department, Environmental Protection Department, Highways Department, Architectural Services Department, Water Services Department and Housing Authority), the MTR Corporation Limited and the Airport Authority, while private sector projects refer to projects commissioned by individuals, privately owned property development companies and commercial enterprises. Our Group generated approximately 95.0%, 99.7% and 100.0% of its revenue in the private sector, respectively, with the remaining revenue of approximately 5.0%, 0.3% and nil in the public sector for the year ended 31 March 2014 and 2015 and six months ended 30 September 2015.

Our Group's revenue for the year ended 31 March 2015 increased by approximately [88.5%] or approximately HK\$177.2 million as compared to that for the year ended 31 March 2014. The increase in revenue contribution from substructure building works services and superstructure building works services amounted to approximately HK\$56.2 million and HK\$189.4 million respectively, net of decrease in RMAA works services of approximately HK\$68.4 million.

The increase in revenue from substructure building works services and superstructure building works services was mainly attributable to the commencement of the new projects P4, P6, P7 and P8 in private sector during 31 March 2015.

Turnover for the six months ended 30 September 2015 increased by approximately 0.4% or approximately HK\$0.6 million as compared to that for the six months ended 30 September 2014. The increase was mainly attributable to the increase in revenue generated from superstructure projects of approximately HK\$44.3 million, of which P7 contributed approximately HK\$28.5 million. The increase in revenue was net off by decrease in revenue from substructure and RMAA business of approximately HK\$29.1 million and HK\$14.7 million respectively. The decrease in substructure was mainly from completion of P3 and a foundation project in Wanchai in the year ended 31 March 2015 which accounted for approximately HK\$15.6 million and HK\$9.7 million respectively. For RMAA business, the decrease was mainly due from completion of P1 in the year ended 31 March 2015 which accounted for approximately HK\$15.3 million of revenue.

## FINANCIAL INFORMATION

### *Cost of revenue*

The table below sets forth a breakdown of our direct costs by nature and percentage contribution to total direct costs for the periods indicated:

	<b>Year ended 31 March</b>				<b>Six months ended 30 September</b>			
	<b>2014</b>		<b>2015</b>		<b>2014</b>		<b>2015</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Subcontracting charges	82,075	49.5	161,152	49.0	76,580	58.1	70,316	53.1
Material charges	58,548	35.3	116,566	35.5	33,715	25.6	40,356	30.5
Direct labour costs	3,340	2.0	12,971	3.9	4,654	3.5	6,027	4.6
Other	21,711	13.2	37,871	11.6	16,874	12.8	15,608	11.8
	<u>165,674</u>	<u>100.0</u>	<u>328,560</u>	<u>100.0</u>	<u>131,823</u>	<u>100.0</u>	<u>132,307</u>	<u>100.0</u>

Being the largest component of our direct costs during the Track Record Period, subcontracting fee represents services fees we paid to our sub-contractors for various services. Material costs primarily include costs of procuring materials such as stainless steel and concrete for construction projects. Direct staff costs primarily include the salaries, wages and other benefits provided for our workers such as site agents, safety officers and foreman who are directly involved in the construction projects. Other primarily include, but not limited to, (i) insurance expenses for contractors' all risks insurance and employees' compensation insurance; (ii) costs of miscellaneous site expenditure such as hiring of plant and machinery and establishment of temporary site officers; and (iii) others such as parts, electricity and water, transportation and dumping charges.

During the Track Record Period, sub-contracting fees constitute the largest component of our direct costs, amounting to approximately [49.5%], [49.0%] and 53.1% of our total direct cost.

The Group's major materials include steel and concrete. During the Track Record Period, the purchases of steel amounted for approximately HK\$20.6 million, HK\$29.9 million and HK\$6.9 million, representing approximately 35.2%, 25.7% and 17.1% of the Group's total material and processing charges, respectively. The purchases of concrete amounted for approximately HK\$7.1 million, HK\$18.1 million and HK\$3.4 million, representing approximately 12.1%, 15.6% and 8.3%.

The table below sets forth the breakdown of our Group's material charges during the Track Record Period by types of materials:

	<b>Year ended 31 March</b>				<b>Six months ended 30 September</b>			
	<b>2014</b>		<b>2015</b>		<b>2014</b>		<b>2015</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Steel	20,602	35.2	29,920	25.7	9,556	28.3	6,919	17.1
Concrete	7,091	12.1	18,136	15.6	6,874	20.4	3,365	8.3
Elevator and air-conditioning installation	10,293	17.6	37,414	32.1	7,439	22.1	15,988	39.7
Consumables	682	1.2	8,307	7.1	3,030	9.0	2,369	5.9
Gas & Petroleum	2,628	4.5	4,907	4.2	1,156	3.4	120	0.3
Other	17,252	29.4	17,882	15.3	5,660	16.8	11,595	28.7
	<u>58,548</u>	<u>100</u>	<u>116,566</u>	<u>100</u>	<u>33,715</u>	<u>100</u>	<u>40,356</u>	<u>100</u>



## FINANCIAL INFORMATION

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's subcontracting fee, materials cost and staff costs on the Group's profit during the Track Record Period. The hypothetical fluctuation rates are set out at 5%, 10% and 20% which are considered reasonable for the purpose of this sensitivity analysis:

<b>Hypothetical fluctuations in subcontracting charges</b>	<b>-20%</b>	<b>-10%</b>	<b>-5%</b>	<b>+5%</b>	<b>+10%</b>	<b>+20%</b>
<b>Increase/Decrease in profit before tax</b>						
Year ended 31 March 2014	16,415	8,208	4,104	(4,104)	(8,208)	(16,415)
Year ended 31 March 2015	32,230	16,115	8,058	(8,058)	(16,115)	(32,230)
Period ended 30 September 2014	15,316	7,658	3,829	(3,829)	(7,658)	(15,316)
Period ended 30 September 2015	14,063	7,032	3,516	(3,516)	(7,032)	(14,063)
<b>Hypothetical fluctuations in material charges</b>	<b>-20%</b>	<b>-10%</b>	<b>-5%</b>	<b>+5%</b>	<b>+10%</b>	<b>+20%</b>
<b>Increase/Decrease in profit before tax</b>						
Year ended 31 March 2014	11,710	5,855	2,927	(2,927)	(5,855)	(11,710)
Year ended 31 March 2015	23,313	11,657	5,828	(5,828)	(11,657)	(23,313)
Period ended 30 September 2014	6,743	3,372	1,686	(1,686)	(3,372)	(6,743)
Period ended 30 September 2015	8,071	4,036	2,018	(2,018)	(4,036)	(8,071)
<b>Hypothetical fluctuations in direct labour cost</b>	<b>-20%</b>	<b>-10%</b>	<b>-5%</b>	<b>+5%</b>	<b>+10%</b>	<b>+20%</b>
<b>Increase/Decrease in profit before tax</b>						
Year ended 31 March 2014	668	334	167	(167)	(334)	(668)
Year ended 31 March 2015	2,594	1,297	649	(649)	(1,297)	(2,594)
Period ended 30 September 2014	931	465	233	(233)	(465)	(931)
Period ended 30 September 2015	1,205	603	301	(301)	(603)	(1,205)

### Gross Profit

The following table sets forth our gross profits and gross margins by business segment and by source of projects for the periods indicated.

	Year ended 31 March				Six months ended 30 September			
	2014		2015		2014		2015	
	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Substructure								
building works services	11,777	15.6	21,205	16.1	11,928	18.1	6,574	17.8
Superstructure								
building works services	687	2.2	22,822	10.3	6,380	8.9	15,357	13.3
RMAA works services	<u>22,045</u>	23.6	<u>4,769</u>	19.2	<u>4,177</u>	24.6	<u>671</u>	29.1
	<u>34,509</u>	17.2	<u>48,796</u>	12.9	<u>22,485</u>	14.6	<u>22,602</u>	14.6

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	Year ended 31 March				Six months ended 30 September			
	2014		2015		2014		2015	
	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Private sector	32,049	16.9	49,795	13.2	22,138	14.4	22,602	14.6
Public sector	<u>2,460</u>	24.3	<u>(999)</u>	(104.6)	<u>347</u>	57.9	<u>—</u>	—
	<u>34,509</u>	17.2	<u>48,796</u>	12.9	<u>22,485</u>	14.6	<u>22,602</u>	14.6

During the years ended 31 March 2014 and 2015 and six months ended 30 September 2015, our gross profit was approximately HK\$34.5 million, HK\$48.8 million and HK\$22.6 million, and our gross profit margins were approximately 17.2%, 12.9% and 14.6% for the years ended 31 March 2014 and 2015 and six months ended 30 September 2015 respectively. Our gross profit margin of our projects depends on a number of factors, including but not limited to, scope of work, technical complexity, geological conditions of the work sites, variation orders and/or work programme, and therefore varies from project to project.

Accordingly, for all of our projects, superstructure building works services, substructure building works services or RMAA works services, Government or Private, our Directors are of the view that no clear benchmark of profit margin based on our three business segments could be established. It is our Directors' objective to maximise gross profit margin for each project. Our overall gross profit margin for the year ended 31 March 2015 decrease to 12.9% compared the years ended 31 March 2014 primarily because the decrease in gross profit of our substructure and superstructure, which was offset by the decrease in gross profit of our RMAA business. The gross profit margin remained stable during the six months ended 30 September 2014 and 2015 of approximately 14.6% and 14.6% due to the increase in gross profit of our RMAA and superstructure project, which was offset by decrease in gross profit of our substructure business.

**Other Income and Gains**

The following table sets forth the breakdown of other income and gains during the Track Record Period:

	Year ended 31 March		Six months ended 30 September	
	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)			
Bank interest income	—	17	3	3
Rental income	127	213	75	—
Sale of scrap materials	—	342	332	29
Interest income on amount due from a director	350	—	—	—
Gain on disposal of property, plant and equipment	—	—	—	400
Other	<u>64</u>	<u>258</u>	<u>16</u>	<u>63</u>
	<u>541</u>	<u>830</u>	<u>426</u>	<u>495</u>



## FINANCIAL INFORMATION

Other income and gains includes mainly interest income received from bank, sale of scrap materials, interest income on amount due from a director, rental income and gain on disposal of an investment property.

### Administrative and Other Operating Expenses

Administrative and other operating expenses mainly include staff costs, Directors' remuneration and benefits, operating lease rental on land and building, legal and professional fees, entertainment, motor vehicles and travelling expense, and other administrative expenses. The following table sets out the administrative expenses by nature during the Track Record Period:

	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)			
Staff costs, including Directors' emoluments	9,947	13,560	5,588	6,639
Motor vehicles and traveling expenses	1,089	1,165	807	328
Operating lease rental on land and buildings	221	355	153	163
Entertainment	3,496	2,780	902	502
Consultancy fee	1,971	1,748	734	759
Legal and professional fee	325	227	78	160
Depreciation	1,236	1,341	320	764
Donation	2,351	1,310	589	1,422
Other	<u>2,110</u>	<u>2,627</u>	<u>1,386</u>	<u>1,837</u>
	<u>22,746</u>	<u>25,113</u>	<u>10,557</u>	<u>12,574</u>

Staff costs included compensation and benefits provided to administrative staff and our Directors. Operating lease rental on land and buildings represented lease rental paid for our Group's warehouses, and open storage and service depot for our machinery and equipment. Those office premises and warehouse were leased from landlords, who are [Independent Third Parties]. Travelling expenses were parking fee and toll fees for travelling costs incurred not directly related in our construction projects. Legal and professional fees included legal expenses and professional charges mainly incurred for renewal of license, ISO and rental agreement. Depreciation classified as administrative expenses represented equipment and motor vehicles which were not involved directly in our construction project.

Our Group donated to non-profit making organizations for the year ended 31 March 2014, 31 March 2015 and six months ended 30 September 2015. Entertainment comprised expenses incurred for food and beverage. Our other administrative expenses included motor vehicles and travelling expenses, entertainment, insurance, telephone and fax charges, auditor's remuneration and other sundry expenses.

## FINANCIAL INFORMATION

### Finance Costs

Our finance costs mainly represent interest expenses for bank loans and interest expenses on obligations under finance leases of machinery and motor vehicles. The table below set forth the total finance costs of our Group and amount charge to profit or loss of our Group during the Track Record Period.

	Year ended 31 March		Six months ended 30 September	
	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Interest on bank borrowings				
— Bank loans and overdraft wholly repayable within five years	882	1,295	596	749
— Bank loans wholly repayable after five years	22	62	18	49
Interest element of finance lease payments	86	343	174	127
	990	1,700	788	925

### Income Tax Expenses

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 effective tax rates of our Group for each of the two years ended 31 March 2014 and 2015 the six months ended 30 September 2015 were [17]%, [19]% and [18]% respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Period to period comparison of results of operation

*Comparison of the year ended 31 March 2015 and 31 March 2014*

#### **Revenue**

The overall revenue of our Group increased by approximately HK\$[177.2] million or [88.5]% from HK\$[200.2] million for the year ended 31 March 2014 to HK\$[377.4] million for the year ended 31 March 2015, which was primarily due to increase in revenue derived from the substructure building works services and superstructure building works services segment.

#### *1. Revenue segment*

##### Substructure building work services

Our revenue generated from substructure building work services increased by HK\$[56.2] million or 74.7%, from approximately HK\$[75.3] million for the year ended 31 March 2014 to approximately HK\$[131.5] million for the year ended 31 March 2015, representing approximately [37.6]% and [34.9]% of our total revenue respectively. The increase was primarily due to the increase in revenue recognised by approximately [HK\$48.0] million in aggregate for the commencement of new project [P6] related to a redevelopment located at Shau Kei Wan, and as a

## FINANCIAL INFORMATION

greater portion of two projects [P9 and P10], which in aggregate contributed revenue of approximately HK\$42.6 million for the year ended 31 March 2015. The increase was partially offset by the completion of substructure work of project P2 related to a church located at Tsim Sha Tsui in the year ended 31 March 2014, which contributed revenue of approximately HK\$21.9 million for that year.

### Superstructure building work services

Our revenue generated from superstructure building work services increased by HK\$[189.4] million or [599.5]%, from approximately HK\$[31.6] million for the year ended 31 March 2014 to approximately HK\$[221.0] million for the year ended 31 March 2015, representing approximately [15.8]% and [58.6]% of our total revenue respectively. The increase was primarily due to (i) the amount of approximately HK\$[66.9] million from the project [P2] related to a church located at Tsim Sha Tsui, which had a substantial portion of the superstructure building works completed during the year ended 31 March 2015, and (ii) an increase in revenue generated by approximately HK\$99.6 million in aggregate from the commencement of three new projects P4, P7 and P8 during the year ended 31 March 2015.

### RMAA work services

Our revenue generated from RMAA works services decreased by approximately HK\$[68.5] million or [73.4]%, from approximately HK\$[93.3] million for the year ended 31 March 2014 to approximately HK\$[24.8] million for the year ended 31 March 2015, representing approximately [46.7]% and [6.6]% of our total revenue respectively. The decrease was mainly attributable to the project P1. Since this project had a substantial portion of the related renovation works completed during the year ended 31 March 2014, it contributed approximately HK\$81.6 million to total revenue during the year ended 31 March 2014 while only approximately HK\$20.9 million was recognized to revenue during the year ended 31 March 2015.

## 2. *Public and private project*

Our public projects accounted for less than 10% of our total revenue. Our public projects were primarily RMAA works services in nature. Our revenue from public projects decreased by approximately HK\$[9.1] million or [90.5%] from approximately HK\$[10.1] million in the year ended 31 March 2014 to approximately HK\$[1.0] million in the year ended 31 March 2015, primarily due to the completion of the substantial portion of the renovation works for two projects at the last quarter of 2013, which were awarded by a university in Hong Kong and statutory body with focus on organizing the protection, restoration and maintenance of monuments.

### **Cost of revenue**

Cost of revenue increased from approximately HK\$[165.7] million for the year ended 31 March 2014 to approximately HK\$[328.6] million for the year ended 31 March 2015, represented an increase of approximately HK\$[162.9] million. Such increase was in line with the increase in our revenue by approximately 88.5% during the same period. The increase was primarily due to (i) the increase in sub-contracting fees by approximately HK\$79.1 million or 96.3% in the year ended 31 March 2015; and (ii) the increase in material costs by approximately HK\$58.0 million or 99.1% in the year ended 31 March 2015; (iii) the increase in direct staff costs by approximately HK\$9.6 million or 288.4% in the year ended 31 March 2015. The significant increase in material costs in the year ended 31 March 2015 was primarily attributable to our superstructure projects [P4, P5 and P6] which commenced works during the year ended 31 March 2015 where we were contractually required to provide a substantive portion of sub-contracting fee and construction materials required, in particular steel, concrete and labour cost.

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### Gross profit and gross profit margin

Our overall gross profit margin dropped from 17.2% for the year ended 31 March 2014 to 12.9% for the year ended 31 March 2015. The decrease was mainly due to the gross loss incurred from RMAA works services in public sector.

Gross profit margin of our substructure building works services increased slightly from approximately 15.6% for the year ended 31 March 2014 to approximately 16.1% for the year ended 31 March 2015. The increase was mainly due to the lower gross profit margin project P2 completed at the year ended 31 March 2014, which was awarded by a church located at Tsim Sha Tsui, which is non-profit making organization in Hong Kong.

Gross profit margin for our superstructure building works services improved from approximately 2.2% for the year ended 31 March 2014 to approximately 10.3% for the year ended 31 March 2015. The improvement was due to increase in gross profit generated from 2 of 3 new projects, P7 and P8, which commenced in first quarter of 2015.

Gross profit margin for our RMAA works services dropped from approximately 23.6% for the year ended 31 March 2014 to approximately 19.2% for the year ended 31 March 2015. The drop was due to increase in additional cost were incurred for a project awarded by a university in Hong Kong. Additional work performed was mainly due to cost incurred to make good any defective work or materials during defect liability period.

### Other Income and Gains

Other income and gains for the two year ended 31 March 2014 and 2015 amounted to approximately HK\$0.5 million and HK\$0.8 million respectively. The increase in other income by approximately HK\$0.3 million for the year ended 31 March 2015 was mainly attributable to (i) the sales of scrap materials of approximately HK\$0.3 million, (ii) increase in miscellaneous income of approximately HK\$0.2 million representing the sale of steel platform, and (iii) net of the decrease in interest income on amount due from a director of approximately HK\$0.4 million.

### Administrative and Other Operating Expenses

Administrative and other operating expenses for the year ended 31 March 2014 and 2015 amounted to HK\$22.7 million and HK\$25.1 million respectively. The increase by approximately HK\$2.4 million was mainly due to (i) increase in staff cost by approximately HK\$3.6 million for salary increment and increase in average number staff in year 2015, (ii) increase in depreciation of approximately HK\$0.1 million, (iii) decrease in other administrative expenses of approximately HK\$0.5 million representing insurance expenses and annual maintenance cost, and (iv) net of decrease in donation approximately HK\$1.0 million.

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### Finance Costs

Our Group recorded finance costs of approximately HK\$1.0 million and HK\$1.7 million for each of the year ended 31 March 2014 and 2015 respectively. The increase in finance cost was primarily attributable to (i) the increase in average outstanding balance of our bank borrowings during the year ended 31 March 2015 and (ii) increase in interest element of finance lease payment.

### Income Tax

Income tax increased by approximately HK\$2.4 million or 124% from approximately HK\$1.9 million for the year ended 31 March 2014 to approximately HK\$4.3 million for the year ended 31 March 2015, which was consistent with the increase in profit before taxation for the year ended 31 March 2015 as compared to the year ended 31 March 2014.

### Profit for the year

The profit for the year of our Group increased by approximately HK\$9.1 million or 96.8% from approximately HK\$9.4 million for the year ended 31 March 2014 to approximately HK\$18.5 million for the year ended 31 March 2015. The net profit margin of our Group remained stable of approximately 4.7% and 4.9% for the year ended 31 March 2014 and 2015. The increase in profit for the year mainly due to increase in our gross profit while partially offset by the increase in administration and other operating expenses.

### Comparison of the six months ended 30 September 2014 and 30 September 2015

#### *Revenue*

The overall revenue of our Group increased slightly by approximately HK\$0.6 million or 0.4% from HK\$154.3 million for the year ended 30 September 2014 to HK\$154.9 million for the year ended 30 September 2015, which was primarily due to increase in revenue derived from the superstructure building works services, net of the decrease from substructure building works services and RMAA works services.

#### *1. Revenue segment*

##### Substructure building work services

Our revenue generated from substructure building work services decreased by HK\$[29.1] million or [44.1]%, from approximately HK\$[66.0] million for the six months ended 30 September 2014 to approximately HK\$[36.9] million for the year ended 30 September 2015, representing approximately [42.8]% and [23.8]% of our total revenue respectively. The decrease was mainly due to a decrease in revenue contribution from two projects namely [P3] and [P9], which together generated revenue contribution of approximately HK\$25.5 million during the six months ended 30 September 2014, and only approximately HK\$1.2 million was recognised during the six months ended 30 September 2015.

##### Superstructure building work services

Our revenue generated from superstructure building work services increased by HK\$[44.3] million or [62.1]%, from approximately HK\$[71.4] million for the six months ended 30 September 2014 to approximately HK\$[115.7] million for the six months ended 30 September 2015, representing approximately [46.2]% and [74.7]% of our total revenue respectively. For the six months ended 30 September 2015, our Group worked on a total of 6 projects for superstructure

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building works services, deriving average income per project of approximately HK\$19.3 million; whereas, for the six months ended 30 September 2014, our Group worked on a total of 5 projects for superstructure building works services, deriving average income per project of approximately HK\$14.2 million. The increase in the average income per project for the six months ended 30 September 2015 was due to the progress 3 projects [P4, P7, and P8], which contributed a total approximately HK\$86.7 million, representing approximately 56.0% of our total revenue for the six months ended 30 September 2015.

### RMAA work services

Our revenue generated from RMAA works decreased by approximately HK\$[14.7] million or [86.4]%, from approximately HK\$[17.0] million for the six months ended 30 September 2014 to approximately HK\$[2.3] million for the six months ended 30 September 2015, representing approximately [11.0]% and [1.5]% of our total revenue respectively. It was mainly due to decrease in revenue generated from the project P1 for a residential development located at Stanley, since the project has achieved practice completion at second quarter of 2014.

### 2. *Public and private project*

For the six months ended 30 September 2015, no projects were awarded from public sector customers. All public projects completed during the year ended 31 March 2015.

### **Cost of Revenue**

Our Group's cost of revenue increased from approximately HK\$131.8 million for the six months ended 30 September 2014 to HK\$132.3 million for the six months ended 30 September 2015, representing a increase of approximately HK\$0.5 million or 0.4%. The increase was mainly due to (i) increase in material charges by approximately HK\$6.6 million, (ii) increase in other direct labour costs by approximately HK\$1.4 million, (iii) and net of decrease in subcontracting charge cost by approximately HK\$6.3 million and decrease in other construction cost by approximately HK\$1.3 million.

### **Gross Profit and Gross Profit Margin**

Our overall gross profit margin remained at a similar level during the six months ended 30 September 2014 and 2015.

The gross profit margin for our substructure building works services remained at a similar level of approximately 18.1% and 17.8% for the six months ended 30 September 2014 and 2015.

Gross profit margin for our superstructure building works services improved from approximately 8.9% for the six months ended 30 September 2014 to approximately 13.3% for the six months ended 30 September 2015. The increase was mainly due to (i) awarded two new projects about redevelopment of teaching block for a school located at Stanley and a proposed composite development located at Portland Street, which generated gross profit of approximately HK\$[2.9] million, and (ii) this lower gross profit margin project by a church, which is non-profit making organization in Hong Kong completed.

Gross profit margin for our RMAA works services increased significantly from approximately 24.6% for the six months ended 30 September 2014 to approximately 29.1% for the six months ended 30 September 2015. The improvement for the six months ended 30 September 2015 was attributable to increase in revenue contributed from the high gross profit margin project compared with the six months ended 30 September 2014.

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### **Other Income and Gains**

Our other income was approximately HK\$495,000 for the six months ended 30 September 2015, representing a slight decrease of approximately HK\$69,000 from approximately HK\$426,000 for the six months ended 30 September 2014. Such decrease was mainly due to decrease in sales of scrap materials by approximately HK\$303,000, which offset by the gain on disposal from an investment property amounted to HK\$400,000.

### **Administrative and Other Operating Expenses**

Administrative and other operating expenses for six months ended 30 September 2015 amounted to HK\$12.6 million, increased by approximately HK\$2 million from HK\$10.6 million for the year ended 30 September 2014. The main reason for the increase was due to (i) increase in staff cost by approximately HK\$1.1 million for salary increment and increase in average number staff in year 2015, (ii) increase in donation of approximately HK\$0.8 million, (iii) increase in depreciation of approximately HK\$0.4 million, and (iv) net of decrease in entertainment expenses and sundry expenses approximately HK\$0.4 million and HK\$0.1 million.

### **Finance costs**

Finance cost increased by approximately HK\$137,000 or 17.4% from approximately HK\$788,000 million for the six months ended 30 September 2014 to approximately HK\$925,000 million for the six months ended 30 September 2015, which was primarily attributable to the increase in the average outstanding balance of our bank borrowings during the six months ended 30 September 2015.

### **Income Tax**

The effective tax rate for the six months ended 30 September 2014 and 2015 remain stable of approximately 17% and 18%.

### **Profit for the Period**

The profit for the six months ended 30 September 2015 amounted to approximately HK\$7.8 million. The dropped as compared to the net profit recorded for the six months ended 30 September 2014 of approximately of HK\$9.5 million was attributable to an increase of administrative and other operating expenses and finance cost during the six months ended 30 September 2015.

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### COMBINED STATEMENT OF FINANCIAL POSITION

The following set forth the selected financial information of our combined statements of financial position as at 31 March 2014 and 2015 and 30 September 2015, which are extracted from the Accountant's Report included in Appendix I to this document:

	<b>As at 31 March</b>	<b>2015</b>	<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	11,526	27,195	24,938
Investment property	<u>[4,600]</u>	<u>[—]</u>	<u>[—]</u>
	<u>16,126</u>	<u>27,195</u>	<u>24,938</u>
<b>Current assets</b>			
Trade and other receivables	44,757	70,906	72,242
Pledged deposits	13,388	14,259	10,766
Amounts due from customers of contract work	13,829	11,547	12,245
Amounts due from related companies	15,793	15,831	15,882
Amount due from a director	9,629	32,727	41,136
Pledged bank deposit	—	1,007	1,010
Bank balances and cash	<u>3,280</u>	<u>5,874</u>	<u>13,580</u>
	<u>100,676</u>	<u>152,151</u>	<u>166,861</u>
Non-current asset held for sale	<u>[—]</u>	<u>[4,600]</u>	<u>[—]</u>
<b>Total current assets</b>	<u>100,676</u>	<u>156,751</u>	<u>166,861</u>
<b>Current liabilities</b>			
Trade and other payables	31,885	61,807	58,271
Amounts due to customers of contract work	31,670	34,112	44,534
Amount due to a director	2,397	2,858	2,858
Obligations under finance leases	1,248	3,172	2,912
Bank borrowings, secured	39,276	56,354	49,288
Provision for taxation	<u>58</u>	<u>1,949</u>	<u>3,823</u>
	<u>106,534</u>	<u>160,252</u>	<u>161,686</u>
<b>Net current assets/(liabilities)</b>	<u>(5,858)</u>	<u>(3,501)</u>	<u>5,175</u>
<b>Total assets less current liabilities</b>	<u>10,268</u>	<u>23,694</u>	<u>30,113</u>
<b>Non-current liabilities</b>			
Obligations under finance leases	2,739	2,790	1,484
Deferred tax liabilities	<u>352</u>	<u>799</u>	<u>663</u>
<b>Total non-current liabilities</b>	<u>3,091</u>	<u>3,589</u>	<u>2,147</u>
<b>NET ASSETS</b>	<u>7,177</u>	<u>20,105</u>	<u>27,966</u>



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	<b>As at 31 March</b>		<b>As at 30 September</b>
	<b>2014</b>	<b>2015</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Capital and Reserves</b>			
Share capital	3,711	3,711	3,711
Reserves	3,466	16,394	24,255
<b>TOTAL EQUITY</b>	<b>7,177</b>	<b>20,105</b>	<b>27,966</b>

### Property, Plant and Equipment

Our Group's property, plant and machinery mainly comprised motor vehicles, office and construction machinery such as excavator, crane, grout pumps and air compressor. The carrying amount of property, plant and equipment increased from [HK\$11.5] million at 31 March 2014 to [HK\$27.2] million at 31 March 2015 as a result of acquisition of buildings and additional contraction machinery in accordance with the requirements of new contracts amounted to approximately HK\$[19.6] million, net of depreciation of approximately HK\$[3.9] million.

The carrying amount value of property, plant and machinery decreased from approximately HK\$27.2 million as at 31 March 2015 to approximately HK\$[25.0] million as at 30 September 2015 as a result of written off of net book value of approximately HK\$[105,000] and the effect of depreciation for the six months ended 30 September 2015 of approximately HK\$[2.2] million. The assets written off during the six months ended 30 September 2015 mainly comprised of furniture and equipment which amounted to approximately HK\$105,000 in aggregate.

### Investment Property and Non-Current Asset Held for Sale

	<b>As at 31 March</b>		<b>As at 30 September</b>
	<b>2014</b>	<b>2015</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value			
At beginning of year/period	4,560	4,600	[—]
Fair value gains	40	—	[—]
Transferred to non-current asset held for sale	—	(4,600)	[—]
	<b>4,600</b>	<b>[—]</b>	<b>[—]</b>

Our Group's investment property was valued at 31 March 2014 by an independent firm of professionally qualified valuers. The valuation gave rise to net value gains of HK\$[40,000] during the year ended 31 March 2014.

During the year ended 31 March 2015, our Group entered into a sale and purchase agreement to dispose of its investment property with the carrying amount at HK\$[4,600,000] and the disposal will be completed within 12 months. In accordance with HKFRS 5 our Group's investment properties have been reclassified as non-current assets held of sale and stated at HK\$[4,600,000] as at the date of the sale and purchase agreement and 31 March 2015, which is lower than the expected fair value less cost of disposal.

During the six months ended 30 September 2015, the investment property was disposed and a gain on disposal of HK\$400,000 was recognised.

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### Trade and Other Receivables

Our trade and other receivable consist of (i) trade receivables; (ii) deposits, prepayment and other receivable; and (iii) retention receivables in relation to completed and on-going projects.

Set out below is the composition of trade and other receivables as at 31 March 2014 and 2015, and 30 September 2015:

	<b>At 31 March</b>		<b>At</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2015</b>
			<i>HK\$'000</i>
Trade receivables	22,159	38,420	27,233
Retention receivables	19,638	30,079	40,332
Deposits, prepayments and other receivables	2,960	2,407	4,677
	44,757	70,906	72,242

### *Trade receivables*

Trade receivables primarily represent amounts receivable from our customers under our building construction contracts, RMAA contracts and sub-structuring work. [We receive progress payment from our customers pursuant to the contract. In general, for every one month, our customer[, or its architect or quantity surveyor] shall estimate the value of the works properly executed and of the materials and goods properly delivered to or adjacent to the works, and then issue a certificate stating the amount due to us from our customer. The date of the certificate shall be within 30 days from the date of such estimation. Upon our presentation of the certificate, our customer shall settle to us the certified amount less any retention money within 30 days.

As at 31 March 2014, 2015 and 30 September 2015, the balance of our trade receivables was HK\$[22.2] million, HK\$[38.4] million and HK\$[27.2] million, respectively. The amount of trade receivables as at 31 March 2015 increased by approximately HK\$16.2 million was primarily attributable to the business expansion as reflected in the increase in number of newly commenced projects in substructure and superstructure segments.

The decrease in trade receivable as at 30 September 2015 to approximately HK\$27.2 million from approximately HK\$38.4 million was mainly due to several projects completed during the six months period. At the Latest Practicable Date, 99.6% of the trade receivables as at 30 September 2015 were subsequently settled.

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### *Ageing analysis of trade receivables*

The following table sets out the ageing analysis of the trade receivables, net of provision for doubtful debt, based on invoice date, as at 31 March 2014, 2015 and 30 September 2015:

	<b>At 31 March</b>		<b>At</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
0–30 days	21,912	36,364	27,233
31–60 days	247	837	—
61–90 days	—	1,219	—
	<u>22,159</u>	<u>38,420</u>	<u>27,233</u>

Credit terms granted to our customers vary from contract to contract. The settlement date is usually determined with reference to the payment certificate date and usually coincides with the payment certificate date, which is approximately 30 days upon our submission of progress payment application.

Over 90% of trade receivables are aged within 30 days and none of our trade receivable aged over three months at all the balance sheet dates. No provision for doubtful debt was made against the outstanding trade receivable because they were collected subsequently after each reporting date.

The following table sets forth the turnover days of the trade receivables (calculated as the average of beginning and ending total trade receivables balances for the period divided by revenue for the period, multiplied by 365 days or 183 days) for the periods indicated:

	<b>Year ended 31 March</b>		<b>Six months</b>
	<b>2014</b>	<b>2015</b>	<b>ended</b>
	<i>days</i>	<i>days</i>	<b>30 September</b>
			<b>2015</b>
			<i>days</i>
Trade receivables turnover days	<u>23</u>	<u>29</u>	<u>39</u>

As we usually submit application for payment and certification to customers approximately 30 days after the date of previous interim payment application and the customers normally takes around 30 days to certify our work done, the overall trade receivable turnover days was over the credit term of 7 days.

The trade receivable turnover days for the year ended 31 March 2014 and the year ended 31 March 2015 is approximately 23 days and 29 days respectively, which is consistent with the credit period of days.

Trade receivable turnover days increased from 29 days for the year ended 31 March 2015 to 39 days for the six months ended 30 September 2015, which was due to the increase in receivables of one newly commenced project, namely [project P4] amounted to approximately HK\$[15.4] million.

### **Retention receivables**

Retention receivables represent the retention monies required by our customers to secure our Group's due performance of the contracts. Typically, the amount of retention money depends on negotiation between the parties, which is at approximately 10% of the value of works certified in each

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progress payment and is subject to a maximum retention of approximately 5% of the total original contract value or a monetary cap. The terms and conditions in relation to the release of retention money also vary from contract to contract, which may subject to, practical completion, the expiry of the defect liability period or a pre-agreed time period.

Retention receivables increased from approximately HK\$19.6 million at 31 March 2014 to HK\$30.1 million at 31 March 2015. The increase was because of retention money withheld for existing and new projects commenced during the year ended 31 March 2015 amounted approximately HK\$19.2 million, net off the effect from the release of retention money upon expiry of maintenance period of approximately HK\$8.7 million. Retention receivable increased further to approximately HK\$40.3 million as at 30 September 2015 because of the increase in retention withheld during the six months ended 30 September 2015 amounted HK\$11.7 million, net of retention released of approximately HK\$1.5 million.

We expect all outstanding retention receivables to be released within the expiry of the defect liability period or the time period pre-agreed between our Group and our customers according to the respective contracts and works done. We expect the release dates of the retention receivables as at 30 September 2015 should fall between 2016 and 2018.

We have established relationships with customers who possess good credit standing and proven payment record. Before submitting a tender/quotation to any potential customer, we would first assess the credit worthiness and reputation of that customer. We regularly monitor the ageing of our trade debtors and would make specific provision for doubtful debts when there is objective evidence that we shall be unable to collect the amounts due. We did not make any provision for doubtful debt in respect of trade receivables and retention receivables during for years ended 31 March 2014 and 2015 and 30 September 2015.

### Pledged Deposits

It represent (i) the deposits we placed with a bank or insurance company for issuance of surety bonds for certain of our project; and (ii) in lieu of surety bond, the deposits retained by our client as security of due performance for our project. The surety bonds provided by our Group during the Track Record Period are generally in an amount not exceeding [4%] of the contract sum.

The following table sets forth the details of the surety bonds in issue as at 31 March 2014, 2015 and 30 September 2015:

	At 31 March 2014	2015	At 30 September 2015
Aggregate value of surety bonds in issues (HK\$'000)	[13,388]	[14,259]	[10,766]
Number of projects that required issuance of surety bond	[6]	[6]	[6]
Aggregate contract value of the projects that required of surety bond (HK\$'000)	344,686	491,933	55,904

Our deposits of approximately HK\$[13.4] million, [HK\$14.3] million and [HK\$10.8] million as at 31 March 2014, 31 March 2015 and 30 September 2015 were attributable to the issue of surety bond in respect of the agreement between the customer and our Group, in lieu of the issue of surety bond,

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deposits was retained by the relevant customer as security of our due performance in superstructure/substructure/RMAA projects that were in progress as at 31 March 2014, 31 March 2015 and 30 September 2015.

As at 31 March 2015, the slight increase amounted to approximately HK\$0.9 million is mainly attributable to the net effect of (i) addition of pledged deposits of three new projects related to substructure and superstructure namely [P4], [P6] and [P8], in aggregate of HK\$7.1 million and (ii) release of pledged deposits of approximately HK\$6.2 million due to completion of three projects, namely [P1], [P3], and a substructure located in Wanchai, Hong Kong.

As at 30 September 2015, the decrease amounted to approximately HK\$3.5 million is mainly attributable to the net effect of (i) addition of pledged deposits of approximately HK\$3.6 million of three new projects, namely [P11], [P1] and [P13] and (ii) release of pledged deposits of HK\$7.1 million upon completion of [P2] and [P9].

### Amounts due from/to Customers of Contract Work

Our Group recognises the value of work performed as revenue based on the percentage of completion. The percentage of completion is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed date bear to the estimated total contract costs.

Amounts due from customers of contract work represent construction contracts in progress at the end of a reporting period and are recorded at the net amount of contract costs incurred plus recognised profit less recognised losses less progress billings. Such balance sheet item typically comprises of (i), in respect of construction works, completed projects or on-going works projects close to the end of each reporting period, for which the payment certificates have yet to be received by us from our customers, and (ii) the differences between the costs incurred and the costs recognised in profit or loss with reference to the stage of completion of the projects at the end of each reporting period.

Amounts due to customers of contract work represent excess of progress billings over contract costs incurred plus recognised profits less any recognised loss.

The following table sets out the details of the amounts due from/to customers of contract works as at the end year of the Track Record Period:

	<b>As at 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs incurred to date plus recognised profits	305,515	641,315	785,235
Less: Progress billings to date	(323,356)	(663,880)	(817,524)
	(17,841)	(22,565)	(32,289)
Amounts due from customers of contract work	13,829	11,547	12,245
Amounts due to customers of contract work	(31,670)	(34,112)	(44,534)
	(17,841)	(22,565)	(32,289)

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The net amount due to customers of contract work amounted to HK\$17.8 million, HK\$22.6 million and HK\$32.3 million as at 31 March 2014 and 2015 and 30 September 2015, the increase was mainly because of the timing difference in billing of interim certificates for projects P7, P8, where the relevant projects billing were more than the cost incurred plus recognised profits less recognised loss.

### **Amount due from/to Related Companies and a Director**

The amounts due from our related companies, which is non-trade nature, was unsecured, interest free and repayable on demand. The amount due from our related companies was approximately HK\$[15.7] million, HK\$[15.8] million and HK\$[15.9] million as at 31 March 2014 and 2015, and 30 September 2015, respectively.

The amount due from our related company primarily represents advance for the acquisition of properties. The amount due from our related company has been subsequently settled in full before [REDACTED].

The amount due from our director is unsecured, interest-free and repayable on demand except that the amount due from our director in the amount of appropriately HK\$10.0 million as at 31 March 2014 was interest-bearing at a rate of 2% per annum. The net amount due from a director amounted to [38.2] million was fully settled [before [REDACTED]].

### **Pledged Bank Deposits**

Our pledged bank deposits represent deposit pledged to banks to secure the banking facilities granted to our Group. The balances of our pledged bank deposits were approximately HK\$[1] million and HK\$[1.0] million as at 31 March 2015 and 30 September 2015, respectively.

### **Bank Balances and Cash**

Our bank balances and cash comprise cash held and short term bank deposits with an original maturity of three months or less. Bank balances and cash amounted to approximately HK\$3.3 million, HK\$5.9 million and HK\$13.6 million as at 31 March 2014 and 2015, and six months ended 30 September 2015 respectively. The increase in bank balances and cash was primarily due to increase in cash generated from operations, and increase in bank borrowings.

### **Trade and Other Payables**

Trade payables primarily include amounts payable to suppliers of materials and subcontractors of our Group. Retention payables represent retention monies withheld to subcontractors. The retention monies are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the contracts with subcontractors. Other payables, accruals and deposits received include salaries payable and provision of construction industry levy.

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The table below sets out the breakdown of our trade and other payables at each of the reporting date as stated:

	<b>At 31 March</b>		<b>At</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
Trade payables	21,410	42,873	43,878
Bills payables	1,576	8,230	4,283
	22,986	51,103	48,161
Other payables, accruals and deposits received	7,015	8,017	6,818
Retention payables	1,884	2,687	3,292
	<b>31,885</b>	<b>61,807</b>	<b>58,271</b>

### *Trade payables*

The trade and bills payables are generally affected by including, but not limited to, the amounts of work performed by our sub-contractors, materials provided by our suppliers, timing of payment invoices received from our sub-contractors and/or suppliers, and credit periods granted by our sub-contractors and/or suppliers. The credit period granted by our sub-contractor is normally 30 to 45 days after issuance of invoice.

The balance of trade and bills payables increased from approximately HK\$23.0 million as at 31 March 2014 to approximately HK\$51.1 million as at 31 March 2015. The increase was mainly due to increase in subcontracting charges incurred and materials purchased payable as a result of increase in revenue.

The slight decrease in trade and bill payables as at 30 September 2015 to approximately HK\$48.2 million as compared to 31 March 2015 was mainly attributable to the decrease in bills payable for material suppliers.

The following table sets forth the aged analysis of our trade payables as at the period indicated:

	<b>At 31 March</b>		<b>At</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
0–30 days	18,811	36,208	26,343
31–60 days	1,498	1,183	4,324
61–90 days	704	99	4,108
Over 90 days	397	5,383	9,103
	<b>21,410</b>	<b>42,873</b>	<b>43,878</b>

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The following table sets forth the turnover days of trade payables for the period indicated:

	<b>Year ended 31 March</b>		<b>Six months ended</b>
	<b>2014</b>	<b>2015</b>	<b>30 September 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables turnover days	47	36	60

Our turnover days of trade payables (comprising our payables to suppliers and payables to sub-contractors) were approximately [47] days, [36] days and [60] days as at 31 March 2014 and 2015 and 30 September 2015, respectively. Due to complexity of certain projects undertaken by the sub-contractor, it has taken us longer time to assess and agree on value of the additional work performed. As a result, the number of trade payables turnover day increased to 60 days for six months ended 30 September 2015.

### *Other payables, accruals and deposits received*

	<b>At 31 March</b>		<b>At</b>
	<b>2014</b>	<b>2015</b>	<b>30 September 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables and accruals	6,715	6,491	6,818
Deposits received	[300]	[1,526]	[—]
	7,015	8,017	6,818

### *Other payables and accruals*

Other payables and accruals include the provision on liability about the joint venture agreement with an independent third party in 2003 and provision of construction industry levy. The balance of other payables and accruals remained stable at approximately HK\$6.7 million as at 31 March 2014 and approximately HK\$6.5 million as at 31 March 2015.

The balance of accruals increased from approximately HK\$6.5 million as at 31 March 2015 to approximately HK\$6.8 million as at 30 September 2015. The increase was mainly due to increase in provision of construction industry levy.

### *Deposits received*

Deposits received as at 31 March 2014 mainly represents the deposit paid by one particular customer. During the year ended 31 March 2015, the Group received deposit of approximately HK\$1.5 million for the sale of an investment property, which was completed during the six months ended 30 September 2015.

### *Retention payables*

Retention payables mainly represent the amounts we withhold from progress payments to our sub-contractors in the range of 5% to 10% of the respective payment amount. Such retention money is released to our sub-contractors upon completion of the defect liability period in accordance with the terms and conditions of the relevant sub-contract. Therefore, a significant portion of retention payables



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remained outstanding as at each balance sheet date. In line with the progress of our construction projects and the increase in our retention receivables, our retention payables increased from approximately HK\$1.9 million as at 31 March 2014 to approximately HK\$2.7 million as at 31 March 2015. As at the Latest Practicable Date, 20.7% of the other payables, accrued and deposits received as at 30 September 2015 were subsequently settled.

### *Tax liabilities*

Our Group filed Profits Tax Return for the year of assessment 2013/14 with audited financial statements for the year ended 31 March 2014 and tax computation prepared by predecessor auditor. The Inland Revenue Department ("IRD") accepted the tax return and computation and raised assessment per return.

In preparation of the financial information of the Group for the Track Record Period, the management of the 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 the Group's subsidiary for the years prior to and the year ended 31 March 2015, where certain revenue and the corresponding cost recognised in financial years ended 31 March 2014 and 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 the 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 periods of approximately HK\$[230,638] have been provided in the profit or loss of the year ended 31 March 2014. Such amount of undercharged is subject to final assessment of the IRD.

In this connection, Edwin Yeung & Company (CPA) Limited, the Group's tax adviser, has issued an independent Hong Kong tax opinion (the "Tax Opinion") as to the potential tax penalty resulting from the tax undercharged for the year ended 31 March 2014 which amounted to approximately HK\$[230,638]. Based on the Tax Opinion, Edwin Yeung & Company (CPA) Limited opines that, given that the filing to the IRD for tax reassessment is on voluntary basis, the IRD should categorise the case as voluntary disclosure. It is further opined in the Tax Opinion that the IRD is likely to assess the case as "Recklessness" which according to the Penalty Policy from the IRD website, the potential tax penalty shall be at 10% of the aggregated tax undercharged plus interest, being approximately HK\$[23,000] plus interest, whereas the maximum tax penalty is [45]% of the aggregated tax undercharged, being approximately HK\$[103,787]. Based on the Tax Opinion, the potential tax penalty is unlikely to reach the maximum amount under the category of "Recklessness" and the potential tax penalty is expected to be approximately HK\$[23,000], being [10]% of the aggregated tax undercharged, plus interest. Based on the Tax Opinion, the management of the Company considered that the amount of potential tax penalty that might be imposed by the IRD is immaterial, and no provision for such amount has been made to the financial information of the Group for the Track Record Period accordingly. The Group made a voluntary filing to the IRD for tax reassessment for the relevant years of assessment on 15 December, 2015. The Group will duly settle the reassessed income tax balance in accordance with the requirement of the IRD.

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### LIQUIDITY AND CAPITAL RESOURCES

Our Group had met its liquidity requirements principally through a combination of internal resources, borrowings, bank overdrafts, finance leases and advances from director and related parties during the Track Record Period. Our Group's principal uses of cash have been, and are expected to continue to be, operational costs and investing activities

	As at 31 March		As at 30 September	As at 31 October
	2014	2015	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
<b>Current assets</b>				
Trade and other receivables	44,757	70,906	72,242	[75,391]
Pledged deposit	13,388	14,259	10,766	[10,766]
Amounts due from customers of contract work	13,829	11,547	12,245	[15,257]
Amount due from related companies	15,793	15,831	15,882	[15,822]
Amount due from a director	9,629	32,727	41,136	[41,322]
Pledged bank deposit	—	1,007	1,010	[—]
Bank balances and cash	3,280	5,874	13,580	[19,793]
Non-current asset held for sale	[—]	[4,600]	[—]	[—]
	<u>100,676</u>	<u>156,751</u>	<u>166,861</u>	<u>[178,351]</u>
<b>Current liabilities</b>				
Trade and other payables	31,885	61,807	58,271	[53,929]
Amounts due to customers of contract work	31,670	34,112	44,534	[59,451]
Amounts due to a director	2,397	2,858	2,858	[2,858]
Obligations under finance leases	1,248	3,172	2,912	[2,771]
Bank borrowings, secured	39,276	56,354	49,288	[48,845]
Provision of taxation	58	1,949	3,823	[4,158]
	<u>106,534</u>	<u>160,252</u>	<u>161,686</u>	<u>[172,012]</u>
<b>Net current (liabilities)/ assets</b>	<u>(5,858)</u>	<u>(3,501)</u>	<u>5,175</u>	<u>[6,339]</u>

Our current assets mainly included trade receivables and other receivables, amounts due from customers of contract work, amount due from a director, amounts due from related companies, pledged deposit, pledged bank deposits and bank balances and cash. Our current liabilities mainly included trade and other payables, amounts due to customers of contract work, tax payable, obligations under finance leases and bank borrowings.

As at 31 March 2014 and 2015, our Group recorded net current liabilities amounted to approximately [HK\$5.9] million and approximately HK\$[3.5] million respectively.

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Our Group's net current liabilities during the Track Record Period were largely due to bank borrowings classified as current liabilities due to "repayable on demand" clauses in the relevant facility agreements. The loans mainly included mortgage loans for our Group's land and buildings, SME loans and revolving loans for business use. If our Group's bank borrowings which were not scheduled to be repaid within a year were excluded from the aforementioned net current liabilities figures, our Group's adjusted net current assets (liabilities) position would be as follows: net current assets of approximately HK\$10.0 million and HK\$14.1 million as at 31 March 2014 and 31 March 2015 respectively and net current assets of HK\$20.0 million as at 30 September 2015.

The decrease of our net current liabilities as at 31 March 2015 as compared to 31 March 2014 was mainly due to the increase in our trade and other receivables of approximately HK\$26.1 million which were mainly caused by several substructure and superstructure projects completed near to the financial year ended 31 March 2015 and were not due for settlement as at 31 March 2015 and increase in amounts due from a director of approximately HK\$23.0 million.

Our net current assets incurred as at 30 September 2015 as compared to 31 March 2015 mainly due to (i) the decrease in trade and other payables of approximately HK\$3.5 million (ii) the decrease of bank borrowings from approximately HK\$56.3 million as at 31 March 2015 to approximately HK\$49.3 million as at 30 September 2015, (iii) the increase in amount due from a director of approximately HK\$8.4 million, and partly offset by the increase of amounts due to customers of contract work of approximately HK\$10.4 million.

Based on the unaudited management accounts of our Group as at 31 October 2015, the net current assets amounted to approximately HK\$[6.3] million. The increase as compared with 30 September 2015 was mainly due to net profit contributed in October 2015.

### CASH FLOWS

The following table sets forth the selected cash flow data from the consolidated statements of cash flows for the period as indicated. This information should be read together with the combined financial information contained in the Accountant's Report in Appendix I to this document.

	<b>Year ended 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
Net cash (used in)/from operating activities	(5,453)	34,029	20,649
Net cash used in investing activities	(13,641)	(44,029)	(3,386)
Net cash from/(used in) financing activities	<u>8,156</u>	<u>16,108</u>	<u>(9,557)</u>
Net (decrease) increase in cash and cash equivalents	(10,938)	6,108	7,706
Cash and cash equivalents at beginning of the year/period	<u>10,704</u>	<u>(234)</u>	<u>5,874</u>
Cash and cash equivalents at end of the year/period	<u>(234)</u>	<u>5,874</u>	<u>13,580</u>

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### **Net cash (used in)/from operating activities**

Net cash from operating activities primarily consisted of profit before taxation adjusted for non-cash items, such as depreciation of plant and equipment, gain on disposal of plant and equipment, and finance costs. We primarily derive our cash inflows from the receipt of payments from customers for contract work. Our cash used in operations principally comprises payment of sub-contracting fees, purchases of construction materials, staff costs and insurance expenses.

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 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.

For the year ended 31 March 2015, our net cash from operation activities was approximately HK\$34.0 million, primarily as a result of the combined effects of (i) approximately HK\$28.4 million operating cash flows before movements in working capital; and (ii) the increase in trade and other receivables of approximately HK\$26.1 million. This was partially offset by (i) decrease in amounts due from customers of contract work of approximately HK\$2.3 million; (ii) the increase in amounts due to customers of contract work of approximately HK\$2.4 million; (iii) the increase in trade and other payables of approximately HK\$29.9 million; (iv) the income tax paid of approximately HK\$2.0 million.

For the six months ended 30 September 2015, our net cash from operation activities was approximately HK\$20.6 million, primarily as a result of the combined effects of (i) approximately HK\$12.3 million operating cash flows before movements in working capital; (ii) the decrease in pledge deposits of approximately HK\$3.4 million; and (iii) the increase in amounts due to customers of contract works of approximately HK\$10.4 million. This was partially offset by (i) increase in amounts due from customers of contract work of approximately HK\$0.7 million; (ii) the increase in trade and other receivables of approximately HK\$1.3 million and (iii) the decrease in trade and other payables of approximately HK\$3.5 million.

### **Net cash used in investing activities**

For the year ended 31 March 2014, our net cash used in investing activities was approximately HK\$13.6 million. The amount was mainly attributable to the advance to a director of approximately HK\$11.3 million, and purchase of property, plant and equipment of approximately HK\$2.3 million.

For the year ended 31 March 2015, our net cash from investing activities was approximately HK\$44.0 million, mainly attributable to the placement of pledged bank deposits of approximately HK\$1.0 million, purchase of property, plant and equipment of approximately HK\$14.8 million and advance to a director of approximately HK\$28.2 million.

For the six month ended 30 September 2015, our net cash from investing activities was approximately HK\$3.4 million, mainly attributable to advance to a director of approximately HK\$8.5 million, and partially offset by the disposal of property, plant and equipment of approximately HK\$5.0 million

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### Net cash from/(used in) financing activities

For the year ended 31 March 2014, our net cash from financing activities was approximately HK\$8.2 million, mainly attributable to proceeds from bank borrowing of approximately HK\$27.4 million, and partially offset by the repayment of bank borrowing of approximately HK\$17.7 million, interest paid on bank loans and overdraft and finance lease approximately HK\$1.0 million, and payment of finance lease of approximately HK\$0.5 million.

For the year ended 31 March 2015, our net cash from financing activities was approximately HK\$16.1 million, mainly attributable to proceeds from bank borrowing of approximately HK\$25.1 million, and partially offset by the repayment of bank borrowing of approximately HK\$4.5 million, interest paid on bank loans and overdraft and finance lease of approximately HK\$1.7 million, and payment of finance lease of approximately HK\$2.8 million.

For the six months ended 30 September 2015, our net cash used in financing activities was approximately HK\$9.6 million, mainly attributable to the repayment of bank borrowing of approximately HK\$7.1 million, interest paid on bank loans and overdraft and finance lease of approximately HK\$0.9 million, and payment of finance lease of approximately HK\$1.6 million.

### INDEBTEDNESS

The following table set out our Group's indebtedness as at the respective financial position dates:

	As at 31 March		As at 30 September 2015	As at 31 October 2015
	2014	2015	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current</b>				
Obligation under finance leases	1,248	3,172	2,912	2,955
Bank borrowing, secured	39,276	56,354	49,288	48,834
Amount due to a director	2,397	2,858	2,858	[2,858]
	42,921	62,384	55,058	54,647
<b>Non-current</b>				
Obligation under finance leases	2,739	2,790	1,484	1,299
	45,660	65,174	56,542	55,946

As at 31 October 2015 for the purpose of this indebtedness statement, our Group's indebtedness consisted of bank borrowings of approximately HK\$[48.8] million; amount due to a director of approximately HK\$2.9 million and finance lease payables of approximately HK\$[4.3] million. There are no material covenants relating to our Group's outstanding debts. As at 31 March 2014 and 2015 and 30 September 2015, our Group had total borrowings (comprising bank overdrafts, borrowings, finance lease payables and amount due to a director) of approximately HK\$45.7 million, HK\$65.2 and HK\$56.5 million respectively. The increase in total indebtedness as at 31 March 2015 as compared with 31 March 2014 was primarily due to additional bank borrowing drawn down which were utilized for payments to subcontractors and purchase of materials. The decrease in total indebtedness as at 30 September 2015 as compared with 31 March 2015 was mainly due to the repayment of bank borrowing.

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As at 31 October 2015, our Group had a total available banking facilities of approximately HK\$[95.2] million, of which approximately HK\$[53.0] million was utilised and approximately HK\$[42.2] million was unrestricted and unutilised. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period.

Our Group will continue to seek bank financing for new projects upon award of new contracts. We will apply for new financing with banks upon award of new contract(s) in order to strengthen the working capital for daily operation and to meet the working capital for new contracts. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period.

Our Directors confirmed we had not materially defaulted or delayed in payments of trade and non-trade payables and borrowings, and/or breaches of finance covenants during the Track Record Period and up to the Latest Practicable Date.

### Bank Borrowings

Bank borrowings of our Group contain a repayment on demand clause. Accordingly, all borrowings are classified as current liabilities in the combined statements of financial position. The following table sets out borrowings based on scheduled repayment dates:

	As at 31 March		As at 30 September	As at 31 October
	2014	2015	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
On demand or within one year	23,436	38,792	34,465	34,469
More than one year, but not exceeding two years	4,443	5,200	4,872	4,817
More than two years, but not exceeding five years	10,264	8,889	6,655	6,076
More than five years	<u>1,133</u>	<u>3,473</u>	<u>3,296</u>	<u>3,472</u>
	<u>39,276</u>	<u>56,354</u>	<u>49,288</u>	<u>48,834</u>

Our Group had bank borrowings of approximately HK\$[39.2] million, HK\$[56.3] million, HK\$[49.3] million and HK\$[48.8] million as at 31 March 2014 and 2015, 30 September 2015 and 31 October 2015, which were used for financing of our Group's construction projects and overall expansion of our business.

All of our Group's bank and other borrowings are denominated in Hong Kong dollar and United States dollar and the effective interest rates were as follows:

	As at 31 March		As at 30 September	As at 31 October
	2014	2015	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Effective interest rate:				
Variable-rate bank loans	0.91% to <u>3.31%</u>	0.91% to <u>3.58%</u>	0.94% to <u>3.25%</u>	[0.94%] to <u>3.02%</u>

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As at the end of each of Relevant Periods unless stated otherwise, our Group's banking facilities are secured by:

- (i) personal guarantees of a director of the Company;
- (ii) time deposit;
- (iii) leasehold land and buildings and investment property of the Group;
- (iv) certain properties of related companies and a director of the Company;
- (v) certain properties of a director's spouse as at 31 March 2014; and
- (vi) loan guarantees issued by the Government of the Hong Kong Special Administrative Region.

The indemnity provided by the director will be fully released, discharged or replaced by corporate guarantee or other securities provided by the Group and guarantees under the Special Loan Guarantee Scheme operated by the Government of the Hong Kong Special Administrative Region will be released and repaid in full upon [REDACTED] of the Company's shares on the Stock Exchange.

### OBLIGATION FOR FINANCE LEASE

The Group leases certain of its motor vehicles and machineries and these leases are classified as finance leases. The lease obligations are secured by the leased assets.

The future lease payments under the finance lease are due as follows:

	As at 31 March		As at 30 September	As at 31 October
	2014	2015	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Minimum lease payment payable				
Not later than one year	1,379	3,388	3,049	3,075
Later than one year but not later than five years	<u>2,855</u>	<u>2,872</u>	<u>1,516</u>	<u>1,332</u>
	4,234	6,260	4,565	4,407
Future finance charges on finance lease	<u>(247)</u>	<u>(298)</u>	<u>(169)</u>	<u>(153)</u>
Present value of finance lease liabilities	<u><u>3,987</u></u>	<u><u>5,962</u></u>	<u><u>4,396</u></u>	<u><u>4,254</u></u>

The aggregate net carrying amounts of the Group's office equipment and motor vehicles held under finance leases and classified as property, plant and equipment as at 31 March 2014 and 2015, 30 September 2015 and 31 October 2015 amounted to HK\$[3.9] million, HK\$[7.0] million, HK\$[5.9] million and HK\$[5.7] million respectively. The Group's finance lease liabilities are subject to personal guarantees provided by [Mr. Ng]. The Directors confirmed that the outstanding finance lease liabilities would be settled by our net proceeds from the [REDACTED] from the Latest Practicable Date to 30 September 2016. For details, please refer to the section headed "Future plans and use of proceeds" in this document.

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### CONTINGENT LIABILITIES

#### Guarantees

Our Group provided guarantee in respect of the surety bonds issued in favour of the customers of certain construction contracts as at the respective financial position dates as follow:

	As at 31 March		As at 30 September	As at 31 October
	2014	2015	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Aggregate value of the surety bonds issued in favour of customers	34,469	38,340	35,454	35,454 (unaudited)

The directors are of the opinion that it is not probable that the insurance companies would claim the Group for losses in respect of the guarantee contracts as it is unlikely that the Group is unable to fulfil the performance requirements of the relevant contracts. Accordingly, no provision for our Group’s obligations under the guarantees has been made as at the end of each of the Relevant Periods. As at the Latest Practicable Date, approximately HK\$48.0 million of surety bonds were given by various insurance companies in favour of our customers.

Ching Lee Engineering and/or the director(s) of Ching Lee Engineering, including Mr. Ng, have unconditionally and irrevocably agreed to indemnify the insurance companies for claims and losses the insurance company may incur in respect of the surety bonds. The indemnity provided by Mr. Ng will be fully released, discharged or replaced by corporate guarantee or other securities provided by the Group upon the [REDACTED]. For details, please refer to the paragraph headed “Relationship with the Controlling Shareholders — Financial independence” in this document.

#### Litigation

Our Group was involved in certain litigation cases, details of which are set out in Note [30] to the Accountant Report.

#### DISCLAIMER

The Directors confirmed that (i) the Group has not experienced any difficulty in obtaining bank borrowing or any default in payment on bank borrowings or any breach of finance covenants during the Track Record Period and up to the Latest Practicable Date; (ii) there has not been any material change in the Group’s indebtedness and contingent liabilities since [31 October 2015] and up to the Latest Practicable Date; (iii) the Directors are not aware of any material defaults in payment of the Group’s trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iv) the bank loans, finance lease and bank facility is subject to standard banking conditions and not subject to fulfillment of covenants relating to the financial ratio requirements or any other material covenants which could adversely affect the Group’s ability to undertake additional debt on equity financings; and (v) the Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of the Group’s bank borrowings and facilities are subject to the fulfillment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect the Group’s ability to undertake additional debt or equity financings. Save as disclosed in section “Financial information — Indebtedness” to this document, the Group did not have, at the close of business on [31 October 2015], any loan capital



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issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

### ANALYSIS OF SELECTED FINANCIAL RATIO

The following table sets forth our selected key financial ratios during the Track Record Period:

Selected Ratios	Notes	Year ended 31 March		Six months ended
		2014	2015	30 September 2015
Gross profit margin	1	17.2%	12.9%	14.6%
Net profit margin	2	4.7%	4.9%	5.1%
Gearing ratio	3	602.8%	310.0%	192.0%
Current ratio	4	0.9	1.0	1.0
Return on equity	5	88.0%	135.5%	32.7%
Return on assets	6	9.8%	12.3%	4.2%

*Notes:*

1. The gross profit margin is calculated by dividing the gross profit by the revenue for the respective year multiplied by 100%.
2. The net profit margin is calculated by dividing the net profit by the revenue for the respective year multiplied by 100%.
3. The gearing ratio is calculated by dividing total obligations under finance leases and total bank borrowings with total equity as at the end of respective periods multiplied by 100%.
4. The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective periods.
5. Return on equity equals the net profit attributable to Shareholders divided by the average balance of total equity as at the end of the respective periods multiplied by 100%.
6. Return on assets is calculated by the net profit for the year divided by average balance of total assets as at the end of the respective periods multiplied by 100%.

### Gross profit margin

Our gross profit margin remained relatively stable at approximately 17.2%, 12.9% and 14.6% for the years ended 31 March 2014 and 2015 and the six months ended 30 September 2015. For further information in relation to our gross profit margin, please refer to the paragraph headed “Management’s Discussion and Analysis Of Financial Condition and Results of Operations — Gross Profit” in this section.

### Net profit margin

Our net profit margins were approximately 4.7%, 4.9% and [5.1%] for the years ended 31 March 2014 and 2015 and the six months ended 30 September 2015. The net profit remained relatively stable during the Track Record Period.

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### Gearing ratio

The gearing ratios recorded were 602.8%, 310.0% and 192.0% as at 31 March 2014 and 2015 and the six months ended 30 September 2015 respectively. Our Group's gearing ratio substantially improved from 602.8% as at 31 March 2014 to 310.0% as at 31 March 2015, which was mainly attributable to the increase in net profit to approximately HK\$18.5 million as at 31 March 2015 from approximately HK\$9.4 million as at 31 March 2014.

The improvement in gearing ratio for the six month ended 30 September 2015 to 192.0% was attributable to (i) the decrease in bank borrowings and overdraft to HK\$49.3 million as at 30 September 2015 from approximately HK\$56.3 million as at 31 March 2015; (ii) further improvement to net profit approximately HK\$7.9 million for the six months ended 30 September 2015.

### Current ratio

The current ratio maintained at a relatively stable level at 0.9 times, 1.0 times, 1.0 times as at 31 March 2014 and 2015 and the six months ended 30 September 2015.

### Return on equity

Our return on equity ratio increased to approximately 135.5% for the year ended 31 March 2015 from approximately 88.0% for the year ended 31 March 2014, which was mainly due to decrease in declaration of dividends from approximately HK\$16.5 million for the year ended 31 March 2014 to approximately HK\$5.6 million for the year ended 2015, which offset the increase in profit for the year by approximately HK\$9.4 million for the year ended 31 March 2014 to approximately HK\$18.5 million for the year ended 31 March 2015.

### Return on asset

Our return on total assets ratio increased to approximately 12.3% for the year ended 31 March 2015 from approximately 9.8% for the year ended 31 March 2014, which was mainly due to the significant increase in profit for the year by approximately HK\$ 9.1 million in the corresponding period.

### CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures for the purchase of buildings and machineries. Our capital expenditures were approximately HK\$[4.4] million, HK\$[19.6] million and HK\$nil for the years ended 31 March 2014 and 2015, and 30 September 2015 respectively. The increase during the year ended March 2015 was mainly for the purchase of buildings and machineries of approximately HK\$[18.2] million during the year ended 31 March 2015.

We expect to meet future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operations and bank borrowings, as well as net proceeds from the [REDACTED]. Where our Directors consider appropriate and necessary, we may raise additional funds on terms that are acceptable to us.

## FINANCIAL INFORMATION

### COMMITMENTS

#### Operating lease commitments

During the Track Record Period, our Group leases office premise under operating lease. The lease runs for an initial period of one to two years and are non-cancellable. The total future minimum lease payments under these leases are due as follow:

	At 31 March 2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	At 30 September 2015 <i>HK\$'000</i>
Within one year	358	1,131	666
Later than one year and not more than five years	194	247	100
	552	1,378	766

#### OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangements.

#### SUFFICIENCY FOR WORKING CAPITAL

Taking into account the estimated net proceeds from the [REDACTED] of New Shares, cash flows from our operations and existing indebtedness, our Directors are of the view, and the Sponsor concurs, that working capital available to our Group is sufficient for our present requirements for at least the next 12 months commencing from the date of this document.

We expect to finance our working capital requirements for the 12 months following the date of this document with the following sources of funding:

- cash inflows generated from our operating activities;
- proceeds from bank loans, including short-term and long-term bank loans;
- the cash and cash equivalents available; and
- proceeds to be received by our Group from the [REDACTED].

#### CAPITAL MANAGEMENT

Our Group actively and regularly reviews and manages our capital structure in order to maintain a balance between the higher shareholders 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. Our Group monitors our capital structure on the basis of the gearing ratio.

## **FINANCIAL INFORMATION**

### **FINANCIAL RISK MANAGEMENT**

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. Further details on our financial risk management policies and practices are set out in Note [33] to the financial information in the Accountants’ Report.

### **SUBSEQUENT EVENTS**

For significant events that took place subsequent to 30 September 2015, please refer to Note [34] to the Accountants’ Report set forth in Appendix I to this document.

### **MATERIAL ADVERSE CHANGE**

Save as disclosed in the paragraph headed “[REDACTED] Expenses” in this section and the paragraph headed “Recent Development” in the “Summary” section of this document, our Directors confirmed that since 30 September 2015 and up to the document 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.

### **DIVIDEND POLICY**

For the years ended 31 March 2014 and 2015, the interim dividends amounting to approximately HK\$16.5 million and HK\$5.6 million respectively represented interim dividends declared by a group entity to its then shareholder. [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 the Board in the future.]

After completion of the [REDACTED], while we currently have no plans to pay dividends to the Shareholders in the foreseeable future, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. 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 results of operations, financial condition, working capital, capital requirements and other factors our Board may deem relevant.

We will re-evaluate our dividend policy annually. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

### **DISTRIBUTABLE RESERVES**

Our Company was incorporated on 16 November 2015 and therefore no distributable reserves were available for distribution to the Shareholders as at 30 September 2015.

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in note [27] of the Accountants' Report in Appendix I to this document, our Directors believe that such transactions were conducted on normal commercial terms and such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

### [REDACTED] EXPENSES

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 recognize 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.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted consolidated net tangible of our Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the [REDACTED] as if it had taken place on [30 September 2015]. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group after the [REDACTED] or at any future dates.

### DISCLOSURE REQUIRED UNDER THE [REDACTED] RULES

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rule 17.15 to 17.21 of the GEM Listing Rules.

## FUTURE PLANS AND USE OF PROCEEDS

### BUSINESS OBJECTIVE

Our business objective is to achieve sustainable growth in our business in Hong Kong by consolidating and expanding our works capacity in Hong Kong.

### BUSINESS STRATEGIES

Please refer to the paragraph headed “Business — Business strategies” in this document for our business strategies.

### IMPLEMENTATION PLANS

We will endeavour to achieve the milestone events set out below during the period from the Latest Practicable Date to 31 March 2018. Their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed “Bases and assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” of this document. There can be no assurance that our plans will materialise in accordance with the expected time frame or that our objective will be accomplished at all. Based on our business objectives, we intend to carry out the following implementation plans:

#### 1. For the period from the Latest Practicable Date to 30 September 2016

- |   |   |  |
|---|---|--|
| To reserve more capital to satisfy our potential customers’ requirement for surety bond   | — | To purchase surety bond as required for any new project  |
| To expand our workforce, and arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses | — | To carry out recruitment   |
|   | — | To arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses            |
|   | — | To evaluate the performance of our staff and the size of our departments   |
| To acquire machinery  | — | To carry out preparatory work including research and selection of the suitable crawler drill to be purchased and seek quotations thereof |
| To reduce our gearing ratio   | — | To repay certain bank borrowing in an one-off manner <sup>(Note 1)</sup>   |
|   | — | To repay all outstanding finance leases in an one-off manner <sup>(Note 2)</sup>   |

*Notes:*

1. It refers to outstanding facility loans of HK\$8 million, among which HK\$2 million was incurred by our Group in October 2015 for general working capital, with interest rate charged at 2.75% over fixed HIBOR, and will mature on or before October 2017.
2. It refers to our outstanding finance leases which our Group leases certain of its motor vehicles and machineries, with interest rates ranging from 2.00% to 3.15% per annum or with the bank’s best lending rate less 1.50% per annum repayable by monthly instalments. All of these finance leases will expire on or before 2019. For details of our finance leases, please refer to the paragraph headed “Financial information — Obligation for finance lease” in this document.

## FUTURE PLANS AND USE OF PROCEEDS

### 2. For the six months ending 31 March 2017

To reserve more capital to satisfy our potential customers' requirement for surety bond	—	To purchase surety bond as required for any new project
To expand our workforce, and arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses	—	To carry out further recruitment, if necessary
	—	To arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses
	—	To evaluate the performance of our staff and the size of our departments
To acquire machinery	—	To purchase one crawler drill
To reduce our gearing ratio		N/A

### 3. For the six months ending 30 September 2017

To reserve more capital to satisfy our potential customers' requirement for surety bond	—	To purchase surety bond as required for any new project
To expand our workforce, and arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses	—	To carry out further recruitment, if necessary
	—	To arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses
	—	To evaluate the performance of our staff and the size of our departments
To acquire machinery		N/A
To reduce our gearing ratio		N/A

## FUTURE PLANS AND USE OF PROCEEDS

### 4. For the six months ending 31 March 2018

To reserve more capital to satisfy our potential customers' requirement for surety bond	—	To purchase surety bond as required for any new project
To expand our workforce, and arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses	—	To carry out further recruitment, if necessary
	—	To arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses
	—	To evaluate the performance of our staff and the size of our departments
To acquire machinery		N/A
To reduce our gearing ratio		N/A

### BASES AND ASSUMPTIONS

The business objective set forth by our Directors is based on the following bases and assumptions:

- there will be no significant economic changes in respect of inflation, interest rate, tax rate and currency exchange rate in Hong Kong that will adversely affect our business;
- we will have sufficient financial resources to meet our planned capital expenditure and business development requirements during the period to which the business objective relates;
- there will be no material changes in the existing laws (whether in Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the construction main contracting industry in Hong Kong, or in the political, economic or market conditions in which we operate;
- there will be no changes in the funding requirement for each of the near term business objectives described in this document from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to our properties or facilities;
- there will be no changes in the effectiveness of the licenses and permits obtained by our Group; and
- we will not be materially affected by the risk factors as set forth in the section headed "Risk factors" in this document.



## FUTURE PLANS AND USE OF PROCEEDS

### REASONS OF THE [REDACTED] AND PROPOSED USE OF NET PROCEEDS

Our Directors believe that the [REDACTED] will enhance our Group's profile and recognition as well as enable us to implement our business plan as set out in this section. Furthermore, the [REDACTED] and the [REDACTED] will provide us with access to the capital market for future corporate finance exercises to assist in our future business development and further strengthen and enhance our competitiveness.

The total amount of [REDACTED] expenses and the underwriting fees (assuming that the [REDACTED] is not exercised) in connection with the [REDACTED] will be borne by our Group and [REDACTED] based on the proportion of the aggregate number of New Shares (if applicable, including the Shares to be issued and allotted pursuant to the exercise of the [REDACTED]) and Sale Shares, respectively. On the basis that the [REDACTED] is HK\$[REDACTED] (being the mid-point of the indicative range of the [REDACTED]), our Directors estimate that the net proceeds to be received by us from the [REDACTED] (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the New Shares and the relevant portion of estimated [REDACTED] expenses in connection with the [REDACTED] to be borne by our Group) will be approximately HK\$[REDACTED]. Our Directors presently intend that the net proceeds payable to us from the [REDACTED] will be applied for the period from the Latest Practicable Date to 31 March 2018 as follows:

	For the period from the Latest Practicable Date to		For the six months ending		Approximate % of net proceeds	
	30 September 2016	31 March 2017	30 September 2017	31 March 2018		
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>		<i>HK\$ million</i>
To reserve more capital to satisfy our potential customers' requirement for surety bond	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
To expand our workforce, and arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
To acquire machinery	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
To reduce our gearing ratio	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total:</b>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Our Directors plan to use the remaining net proceeds of approximately HK\$[REDACTED] million (approximately [REDACTED]% of the net proceeds) for working capital and other general corporate purposes.

If the [REDACTED] is determined at the high-end of the indicative range of the [REDACTED], the net proceeds from the [REDACTED] to be received by us (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the New Shares and the relevant portion of estimated [REDACTED] expenses in connection with the [REDACTED] to be borne by our

## FUTURE PLANS AND USE OF PROCEEDS

Group) would be increased to approximately HK\$[REDACTED]. We currently intend to apply such additional net proceeds to the above proposed usage items, save and except for the reduction of our gearing ratio, on a pro-rata basis.

If the [REDACTED] is determined at the low-end of the indicative range of the [REDACTED], the net proceeds from the [REDACTED] to be received by us (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the New Shares and the relevant portion of estimated [REDACTED] expenses in connection with the [REDACTED] to be borne by our Group) would be decreased to approximately HK\$[REDACTED]. We currently intend to reduce the net proceeds to the above proposed usage items, save and except for the reduction of our gearing ratio, on a pro-rata basis.

If the [REDACTED] is exercised in full, assuming a [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED], we estimate the net proceeds to be received by us from the [REDACTED] (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the New Shares and Shares to be issued pursuant to the exercise of the [REDACTED] and the relevant portion of estimated [REDACTED] expenses in connection with the [REDACTED] to be borne by our Group) would be increased to approximately HK\$[REDACTED]. We currently intend to apply such additional net proceeds to the above proposed usage items, save and except for the reduction of our gearing ratio, on a pro-rata basis.

As at the Latest Practicable Date, we did not have any acquisition target.

To the extent that the net proceeds from the [REDACTED] are not immediately required for the above purposes, it is the present intention of our Directors that they will be placed as short-term deposits with licensed banks in Hong Kong.

We estimate that the [REDACTED] will receive net proceeds of approximately HK\$[REDACTED] at the [REDACTED] of HK\$[REDACTED] (being the mid-point of the indicative range of the [REDACTED]), after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy for the Sale Shares and the relevant portion of estimated [REDACTED] expenses to be borne by [REDACTED]. We will not receive any of the net proceeds of the [REDACTED] from the sale of the Sale Shares by [REDACTED].

Our Directors consider that the net proceeds from the [REDACTED] together with our internal resources will be sufficient to finance the implementation of our business plans as set forth in the paragraph under “Future plans and use of proceeds — Implementation plans” in this document. **Investors should be aware that any part of our business plans may not proceed according to the time frame as described above due to various factors. Under such circumstances, our Directors will evaluate carefully the situation and will hold the funds as short-term deposits until the relevant business plan(s) materialise.**

**UNDERWRITING**

[REDACTED]

**UNDERWRITING**

**[REDACTED]**

**UNDERWRITING**

[REDACTED]

**UNDERWRITING**

[REDACTED]

## UNDERWRITING

[REDACTED]

### **Commission and Expenses**

The Underwriter will receive an underwriting commission of [REDACTED]% of the aggregate [REDACTED] of all [REDACTED], which are to be borne by our Company and [REDACTED] based on the proportion of the aggregate number of New Shares (if applicable, including the Shares to be allotted and issued pursuant to the exercise of the [REDACTED]) and Sale Shares, respectively, out of which the Underwriter will pay any sub-underwriting commission. The total commission and expenses relating to the [REDACTED] and [REDACTED] (including the [REDACTED] fees, legal and other professional fees, and printing fees), which will be borne by our Company, are estimated to amount to approximately HK\$[REDACTED].

### **Underwriter(s)' interest in our Company**

Save as provided for under the Underwriting Agreement, none of the Underwriter(s) has any shareholding interests in any member of our Group nor has any right (whether legally enforceable or not) to subscribe for or purchase or nominate persons to subscribe for or purchase any Shares.

**UNDERWRITING**

**[REDACTED]**



**UNDERWRITING**

**[REDACTED]**

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**APPENDIX I**

**ACCOUNTANT'S REPORT**



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[REDACTED]

The Directors  
 Ching Lee Holdings Limited  
 Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information of Ching Lee Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which comprises the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the two years ended 31 March 2014 and 2015 and the six months ended 30 September 2015 (the "Relevant Periods") and the combined statements of financial position of the Group as at 31 March 2014 and 2015 and 30 September 2015 together with a summary of significant accounting policies and other explanatory notes (the "Financial Information"), together with the comparative financial information of the Group including the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the six months ended 30 September 2014 (the "Comparative Financial Information"), prepared on the basis of presentation set out in Note 2 to the Financial Information, for inclusion in the document of the Company dated [DATE] (the "Document") in connection with the initial [REDACTED] (the "[REDACTED]") of the shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 16 November 2015. Pursuant to a group reorganisation (the "Reorganisation") as more fully explained in Note 2 to the Financial Information, the Company has since 15 December 2015 become the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation saved for the Reorganisation.

The Group is principally engaged in the provision of construction and consultancy works and project management services in Hong Kong. As of the date of this report, the particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation and type of legal entity	Place of operations	Issued and paid-up capital	Effective interest held by the Company		Principal activities
				Directly	Indirectly	
Ching Lee Group Limited ("Ching Lee Group")	British Virgin Islands("BVI")/ 16 November 2015/Limited liability company	Hong Kong	500 shares of US\$500	100%	—	Investment holding

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Name of subsidiary	Place and date of incorporation and type of legal entity	Place of operations	Issued and paid-up capital	Effective interest held by the Company		Principal activities
				Directly	Indirectly	
Ching Lee Engineering Limited (“Ching Lee Engineering”)	Hong Kong/27 November 1998/ Limited liability company	Hong Kong	3,700,000 shares of HK\$3,700,000	—	100%	Provision of construction and consultancy works and project management services in Hong Kong
Ching Lee Foundation Limited (“Ching Lee Foundation”)	Hong Kong/ 10 August 2007/ Limited liability company	Hong Kong	1,000 shares of HK\$1,000	—	100%	Dormant
Ching Lee Construction Limited (“Ching Lee Construction”)	Hong Kong/26 May 2003/ Limited liability company	Hong Kong	10,000 shares of HK\$10,000	—	100%	Property holding
Right Lucky Limited (“Right Lucky”)	Hong Kong/25 August 2005/ Limited liability company	Hong Kong	1 share of HK\$1	—	100%	Property holding

*Note:* Throughout the Relevant Periods, Mr. Ng Choi Wah (“Mr. Ng”) held 65% of the equity interest of Ching Lee Construction. Upon the acquisition of remaining 35% equity interest of Ching Lee Construction from the non-controlling shareholders by Mr. Ng on 15 December 2015, and the subsequent acquisition of the entire 100% equity interest of Ching Lee Construction from Mr. Ng by Ching Lee Group on 15 December 2015 as part of the Reorganisation as disclosed in Note 2 to the Financial Information, the Company’s equity interest in Ching Lee Construction increased from 65% to 100%.

Except for Ching Lee Foundation and Ching Lee Construction, which have adopted 30 June as their financial year end date, the Company and the remaining subsidiaries have adopted 31 March as their financial year end date.

No audited financial statements have been prepared for the Company and Ching Lee Group as they are newly incorporated and have not been involved in any significant business transactions except for the Reorganisation.

The statutory financial statements of Ching Lee Engineering for the year ended 31 March 2015, Ching Lee Construction for the years ended 30 June 2013, 2014 and 2015, Right Lucky for the years ended 31 March 2014 and 2015 and Ching Lee Foundation for the year ended 30 June 2015, were audited by BDO Limited, certified public accountants and were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The statutory financial statements of Ching Lee Engineering for the year ended 31 March 2014 and Ching Lee Foundation Limited for the year ended 30 June 2014 were audited by F.W. Ngan & Company, certified public accountants and were prepared in accordance with the Small and Medium-sized Entity Financial Reporting Standard (“SME-FRS”) issued by the HKICPA.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with the basis of presentation set out in Note 2 to the Financial Information below and the significant accounting policies set out in Note 4 to the Financial Information below which conform to HKFRSs

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## **ACCOUNTANT'S REPORT**

issued by the HKICPA. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA pursuant to separate terms of engagement with the Company.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements with no adjustment made thereon.

### **RESPONSIBILITY**

The directors of the Company are responsible for the contents of the Document including the preparation and true and fair presentation of the Financial Information in accordance with the basis of presentation set out in Note 2 to the Financial Information below and the significant accounting policies set out in Note 4 to the Financial Information below and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an independent opinion on the Financial Information based on our examination and to report our opinion to you.

### **BASIS OF OPINION**

For the purpose of this report, we have examined the Financial Information of the Group and carried out appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. For the purpose of this report, no adjustment to the Financial Information is considered necessary.

### **OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis of presentation set out in Note 2 to the Financial Information below and in accordance with the significant accounting policies set out in Note 4 to the Financial Information below, gives a true and fair view of the state of affairs of the Group as at 31 March 2014 and 2015 and 30 September 2015 and of the results and cash flows of the Group for the Relevant Periods.

### **COMPARATIVE FINANCIAL INFORMATION**

For the purpose of this report, we have also reviewed the Comparative Financial Information, which has been prepared on the basis of presentation set out in Note 2 to the Financial Information below and in accordance with the significant accounting policies set out in Note 4 to the Financial Information below, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation and presentation of the Comparative Financial Information in accordance with the basis of presentation set out in Note 2 to the Financial Information below and the significant accounting policies set out in Note 4 to the Financial Information below and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. Our responsibility is to express a conclusion on the Comparative Financial Information based on our review.



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A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

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**ACCOUNTANT'S REPORT**

**I. FINANCIAL INFORMATION**

**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Notes</i>	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
		<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	7	200,183	377,356	154,308	154,909
Cost of revenue		<u>(165,674)</u>	<u>(328,560)</u>	<u>(131,823)</u>	<u>(132,307)</u>
Gross profit		34,509	48,796	22,485	22,602
Other income and gains	8	581	830	426	495
Administrative and other operating expenses		(22,746)	(25,113)	(10,557)	(12,574)
Finance costs	10	<u>(990)</u>	<u>(1,700)</u>	<u>(788)</u>	<u>(925)</u>
<b>Profit before income tax</b>	9	11,354	22,813	11,566	9,598
Income tax	11	<u>(1,934)</u>	<u>(4,335)</u>	<u>(2,020)</u>	<u>(1,737)</u>
<b>Profit and total comprehensive income for the year/period</b>		<u>9,420</u>	<u>18,478</u>	<u>9,546</u>	<u>7,861</u>

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**ACCOUNTANT'S REPORT**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

		<b>As at 31 March</b>		<b>As at</b>
		<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	15	11,526	27,195	24,938
Investment property	16	4,600	—	—
Total non-current assets		<u>16,126</u>	<u>27,195</u>	<u>24,938</u>
<b>Current assets</b>				
Trade and other receivables	18	44,757	70,906	72,242
Pledged deposits	19	13,388	14,259	10,766
Amounts due from customers of contract work	20	13,829	11,547	12,245
Amounts due from related companies	21	15,793	15,831	15,882
Amount due from a director	21	9,629	32,727	41,136
Pledged bank deposit	17	—	1,007	1,010
Bank balances and cash		3,280	5,874	13,580
		<u>100,676</u>	<u>152,151</u>	<u>166,861</u>
Non-current asset held for sale	16	—	4,600	—
Total current assets		<u>100,676</u>	<u>156,751</u>	<u>166,861</u>
<b>Current liabilities</b>				
Trade and other payables	22	31,885	61,807	58,271
Amounts due to customers of contract work	20	31,670	34,112	44,534
Amount due to a director	21	2,397	2,858	2,858
Obligations under finance leases	23	1,248	3,172	2,912
Bank borrowings, secured	24	39,276	56,354	49,288
Provision of taxation		58	1,949	3,823
Total current liabilities		<u>106,534</u>	<u>160,252</u>	<u>161,686</u>
<b>Net current assets/(liabilities)</b>		<u>(5,858)</u>	<u>(3,501)</u>	<u>5,175</u>
<b>Total assets less current liabilities</b>		<u>10,268</u>	<u>23,694</u>	<u>30,113</u>
<b>Non-current liabilities</b>				
Obligations under finance leases	23	2,739	2,790	1,484
Deferred tax liabilities	11	352	799	663
Total non-current liabilities		<u>3,091</u>	<u>3,589</u>	<u>2,147</u>
<b>Net assets</b>		<u>7,177</u>	<u>20,105</u>	<u>27,966</u>
<b>Capital and reserves</b>				
Share capital	25	3,711	3,711	3,711
Retained profits		3,466	16,394	24,255
<b>Total equity</b>		<u>7,177</u>	<u>20,105</u>	<u>27,966</u>

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**ACCOUNTANT'S REPORT**

**COMBINED STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>At 1 April 2013</b>	3,711	10,511	14,222
Profit and total comprehensive income for the year	—	9,420	9,420
Dividend declared	—	(16,465)	(16,465)
<b>At 31 March 2014 and 1 April 2014</b>	3,711	3,466	7,177
Profit and total comprehensive income for the year	—	18,478	18,478
Dividend declared	—	(5,550)	(5,550)
<b>At 31 March 2015 and 1 April 2015</b>	3,711	16,394	20,105
Profit and total comprehensive income for the period	—	7,861	7,861
<b>At 30 September 2015</b>	<u>3,711</u>	<u>24,255</u>	<u>27,966</u>
	<b>Share capital</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>At 1 April 2014</b>	3,711	3,466	7,177
Profit and total comprehensive income for the period	—	9,546	9,546
<b>At 30 September 2014 (unaudited)</b>	<u>3,711</u>	<u>13,012</u>	<u>16,723</u>

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**COMBINED STATEMENTS OF CASH FLOWS**

	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
<b>Operating activities</b>				
Profit before income tax	11,354	22,813	11,566	9,598
Adjustments for:				
Depreciation of property, plant and equipment	1,584	3,904	1,602	2,183
Gain on disposal of non-current asset held for sale	—	—	—	(400)
Fair value gain on investment property	(40)	—	—	—
Bank interest income	—	(17)	(3)	(3)
Interest income on amount due from a director	350	—	—	—
Finance costs	990	1,700	788	925
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating profit before working capital changes	14,238	28,400	13,953	12,303
Increase in trade and other receivables	(30,945)	(26,149)	(12,034)	(1,336)
(Increase)/decrease in pledged deposits	(6,034)	(871)	(1,361)	3,493
(Increase)/decrease in amounts due from customers of contract work	(4,445)	2,282	(4,550)	(698)
Increase/(decrease) in amounts due to customers of contract work	12,473	2,442	(3,922)	10,422
Increase/(decrease) in trade and other payables	10,890	29,922	18,479	(3,536)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash (used in)/generated from operating activities	(3,823)	36,026	10,565	20,648
Income tax (paid)/refunded	(1,630)	(1,997)	(335)	1
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash (used in)/generated from operating activities</b>	<u>(5,453)</u>	<u>34,029</u>	<u>10,230</u>	<u>20,649</u>
<b>Investing activities</b>				
Increase in pledged bank deposit	—	(1,007)	(1,003)	(3)
Purchases of property, plant and equipment	(2,288)	(14,814)	(8,327)	(31)
Proceeds from disposal of property, plant and equipment	—	—	—	105
Proceeds from disposal of non-current asset held for sale	—	—	—	5,000
Increase in amounts due from a director and related companies, net	(11,353)	(28,225)	(2,007)	(8,460)
Interest received	—	17	3	3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net cash used in investing activities</b>	<u>(13,641)</u>	<u>(44,029)</u>	<u>(11,334)</u>	<u>(3,386)</u>

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**ACCOUNTANT'S REPORT**

	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
<b>Financing activities</b>				
Proceeds from new bank borrowings	27,400	25,080	14,300	—
Repayments of bank borrowings	(17,722)	(4,488)	(3,958)	(7,066)
Capital element of finance lease payments	(532)	(2,784)	(1,258)	(1,566)
Interest paid on bank borrowings	(904)	(1,357)	(614)	(798)
Interest paid on obligations under finance leases	(86)	(343)	(174)	(127)
<b>Net cash generated from/(used in) financing activities</b>	<u>8,156</u>	<u>16,108</u>	<u>8,296</u>	<u>(9,557)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(10,938)	6,108	7,192	7,706
<b>Cash and cash equivalents at beginning of year/period</b>	<u>10,704</u>	<u>(234)</u>	<u>(234)</u>	<u>5,874</u>
<b>Cash and cash equivalents at end of year/period</b>	<u><u>(234)</u></u>	<u><u>5,874</u></u>	<u><u>6,958</u></u>	<u><u>13,580</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>				
Bank balances and cash	3,280	5,874	8,405	13,580
Less: Bank overdraft	(3,514)	—	(1,447)	—
	<u><u>(234)</u></u>	<u><u>5,874</u></u>	<u><u>6,958</u></u>	<u><u>13,580</u></u>

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## ACCOUNTANT’S REPORT

### II. NOTES TO THE FINANCIAL INFORMATION

#### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 16 November 2015. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its principal place of business is located at Rooms 203–204, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Jordan, Kowloon, Hong Kong.

The principal activities of the Group are provision of construction and consultancy works and project management services in Hong Kong.

#### 2. REORGANISATION AND BASIS OF PRESENTATION

Prior to the Reorganisation, all entities which took part in the Reorganisation were collectively controlled and wholly-owned by Mr. Ng (the “Controlling Shareholder”) except that Ching Lee Construction was owned as to 65% and 35% by Mr. Ng and other non-controlling shareholders respectively.

Pursuant to the Reorganisation conducted by the companies now comprising the Group to prepare for the [REDACTED], the Company has since 15 December 2015 become the holding company of its subsidiaries now comprising the Group. Part of the steps under the Reorganisation is described below:

- (1) The Company was incorporated in the Cayman Islands on 16 November 2015. The initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. Upon incorporation, 1 nil-paid subscriber share was allotted and issued to the subscriber, which was transferred to Mr. Ng on 16 November 2015.
- (2) JT Glory Limited was incorporated in the BVI on 16 November 2015 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 16 November 2015, 1 share was allotted and issued to Mr. Ng and credited as fully paid at par.
- (3) Ching Lee Group was incorporated in the BVI on 16 November 2015 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 16 November 2015, 100 shares were allotted and issued to Mr. Ng and credited as fully paid at par.
- (4) On 15 December 2015, Mr. Ng acquired 2,500 shares of Ching Lee Construction (representing 25% of its entire issued share capital) from Mr. Lui Yiu Wing (“Mr. Lui”), a non-controlling shareholder of Ching Lee Construction at a total consideration of approximately HK\$428,000 which was settled by cash, which was determined after arm’s length negotiation between Mr. Ng and Mr. Lui with reference to the fair value of the 25% interest of Ching Lee.
- (5) On 15 December 2015, Mr. Ng acquired 1,000 shares of Ching Lee Construction (representing 10% of its entire issued share capital) from Mr. Lam Ka Fai (“Mr. Lam”), a non-controlling shareholder of Ching Lee Construction at a total consideration of approximately HK\$171,000 which was settled by cash, which was determined after arm’s length negotiation between Mr. Ng and Mr. Lam with reference to the fair value of the 10% interest of Ching Lee Construction.

Upon completion of steps (4) and (5) above, Ching Lee Construction becomes wholly-owned by Mr. Ng.

- (6) On 15 December 2015, Ching Lee Group acquired 10,000 shares of Ching Lee Construction (representing its entire issued share capital) from Mr. Ng at a total consideration of US\$100 which was settled by way of the allotment and issue of 100 credited and fully paid new shares of US\$1 each of Ching Lee Group to Mr. Ng.
- (7) On 8 December 2015, Ching Lee Group acquired 3,700,000 shares of Ching Lee Engineering (representing its entire issued share capital) from Mr. Ng at a total consideration of US\$100 which was settled by way of the allotment and issue of 100 credited and fully paid new shares of US\$1 each of Ching Lee Group to Mr. Ng. Moreover, on 15 December 2015, Ching Lee Engineering transferred its entire interest in Kingle Limited (“Kingle”), a 10%-owned associate, to Mr. Ng at a consideration of approximately HK\$755,000 which was settled through Ching Lee Engineering’s current account with Mr. Ng, further details of which are set out in paragraphs headed “Exclusion of Business” below.
- (8) On 8 December 2015, Ching Lee Group acquired 1,000 shares of Ching Lee Foundation (representing its entire issued share capital) from Mr. Ng at a total consideration of US\$100 which was settled by way of the allotment and issue of 100 credited and fully paid new shares of US\$1 each of Ching Lee Group to Mr. Ng.

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- (9) On 8 December 2015, Ching Lee Group acquired 1 share of Right Lucky (representing its entire issued share capital) from Mr. Ng at a total consideration of US\$100 which was settled by way of the allotment and issue of 100 credited and fully paid new share of US\$1 each of Ching Lee Group to Mr. Ng.

Upon completion of steps (6), (7), (8) and (9) above, Ching Lee Construction, Ching Lee Engineering, Ching Lee Foundation and Right Lucky become wholly-owned subsidiaries of Ching Lee Group.

- (10) On 15 December 2015, the Company acquired the entire issued share capital in Ching Lee Group from Mr. Ng in consideration of which, the Company credited as fully paid at par the 1 nil-paid initial subscriber share held by Mr. Ng and allotted and issued 99 fully paid-up new shares to Mr. Ng. Upon completion of the allotment and issue, Ching Lee Group becomes a wholly-owned subsidiary of the Company.

- (11) On 15 December 2015, JT Glory Limited acquired all the issued shares of the Company held by Mr. Ng from Mr. Ng, in consideration of which, JT Glory Limited allotted and issued 98 fully paid-up new shares to Mr. Ng.

Upon completion of the aforementioned steps of the Reorganisation, the issued share capital of the Company was wholly-owned by JT Glory Limited, whereas the issued share capital of JT Glory Limited was wholly-owned by Mr. Ng.

The Company and its subsidiaries now comprising the Group have been both before and after the Reorganisation under the common control of the Controlling Shareholder.

The Reorganisation involved the formation of the Group and is considered as business combinations under common control. Immediately after the Reorganisation, there was a continuation of the risks and benefits to the ultimate controlling party (i.e. the Controlling Shareholder) that existed prior to the Reorganisation. Accordingly, the Reorganisation has been accounted for in accordance with Hong Kong Accounting Guideline 5 *Merger Accounting for Common Control Combinations* and the Financial Information has been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the Relevant Periods.

Upon the completion of the Reorganisation, the Company holds the entire equity interests, directly or indirectly, of companies comprising the Group. For the purpose of the preparation of the Financial Information, all group companies comprising the Group are accounted for as wholly-owned by the Company since their respective dates of incorporation and therefore non-controlling interests of Ching Lee Construction are not presented in the Financial Information.

The combined statements of comprehensive income and combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of the companies now comprising the Group as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever was shorter. The combined statements of financial position of the Group as at 31 March 2014 and 2015 and 30 September 2015 have been prepared to present the state of the affairs of the Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies now comprising the Group are combined using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of combination.

### Exclusion of Business

As set out in step (7) of the Reorganisation above, Ching Lee Engineering transferred its entire interest in Kingle, a 10%-owned associate, to Mr. Ng on 15 December 2015 as part of the Reorganisation, in which the interest in Kingle shall be excluded from the Group for the purpose of the [REDACTED].

During the Relevant Periods, Kingle has no operation except for making and receiving remaining payments for joint construction projects of Ching Lee Engineering and the independent third party which therefore owned 10% and 90% equity interests in Kingle respectively. The related construction projects had been completed in prior years and the Group currently does not have any joint construction project. Moreover Kingle does not hold any licence to conduct building construction works in Hong Kong, and the principal activities of Kingle and those of the Group are dissimilar. Books and records of Kingle are separately kept from those companies now comprising the Group. Sources of funding of Kingle are mainly from its own operations. Daily operations of the Kingle are operated by its management and independent from the Group.

Accordingly, the Financial Information of the Group for the Relevant Periods has been prepared using the Underlying Financial Statements of the companies now comprising the Group as if the interest in Kingle had been excluded from the Group throughout the Relevant Periods.

For the purpose of the preparation of the Financial Information, the dividend income from Kingle was set off against the amount due from the director.



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### 3. NEW OR REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to the Group, have been issued, but are not yet effective and have not been early adopted by the Group in the preparation of the Financial Information.

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle <sup>1</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 16	Clarification of Acceptable Methods of Depreciation <sup>1</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>1</sup>
HKFRS 9 (2014)	Financial Instruments <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2018

#### Amendments to HKAS 27 — Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

#### HKFRS 9 (2014) — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

#### HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation

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- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group has already commenced an assessment of the impact of adopting the above standards and amendments to existing standards to the Group. The Group has so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (a) Basis of preparation

The Financial Information has been prepared in accordance with the basis of presentation set out in Note 2 and the significant accounting policies set out below, which conform to HKFRSs which in collective term includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and become effective during the Relevant Periods. In preparing this Financial Information, the Group has adopted all these new or revised HKFRSs throughout the Relevant Periods.

At the date of this report, certain new or revised HKFRSs have been issued by the HKICPA but are not yet effective and have not been early adopted by the Group, details of which are set out in Note 3.

The Financial Information has been prepared under the historical cost basis except for investment property which is measured at fair value as explained in the accounting policies set out below.

The Financial Information is presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and its major subsidiaries.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

The Group recorded net current liabilities of approximately HK\$5,858,000 and HK\$3,501,000 as at 31 March 2014 and 2015, respectively. Notwithstanding the above, the directors of the Company are of the opinion that the Group is able to continue as a going concern.

The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its liabilities as they fall due in the next twelve months from the end of the Reporting Periods after taking into consideration of the following:

- The directors have carried out a detailed review of the cash flow forecast of the Group, and consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 30 September 2015; and
- The Group has unutilised bank borrowing facilities of approximately HK\$[41,992,000] as at 30 September 2015.

Should the Group be unable to continue to operate as a going concern, adjustments would have been made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the Financial Information.

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### (b) Basis of combination and subsidiaries

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. As explained in Note 2 above, the Reorganisation is accounted for using merger basis of accounting.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined financial statements. 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.

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights to, variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

### (c) Investment property

Investment property are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The estimated useful lives are as follows:

Leasehold land and buildings	Over the shorter of lease terms or 50 years
Leasehold improvements	4 years
Furniture and equipment	4 years
Motor vehicles	4 years
Machineries	4 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### (e) Leasing

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 regardless of whether the arrangement takes the legal form of a lease.

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Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

*(i) The Group as lessee under finance lease*

Where the Group acquires the right to use the assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Subsequent accounting for assets held under finance lease arrangement corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

*(ii) The Group as lessee under operating lease*

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

**(f) Financial instruments**

*(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measure at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The Group's financial assets are loans and receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost, less any identified impairment losses.

*(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;

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- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- a significant or prolonged decline in fair value of an investment below its cost.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### *(iii) Financial liabilities*

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised in profit or loss.

Gain or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

### *(iv) Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

### *(v) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### *(vi) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

### *(vii) Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

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### (g) Construction contracts

When the outcome of construction contracts can be estimated reliably, revenue from construction works and the associated contract costs are recognised according to the stage of completion of individual contract at the end of the reporting period. The stage of completion is determined using percentage of completion method by reference to the contract costs incurred to date as a proportion of the total estimated contract costs.

When the outcome of construction contracts cannot be estimated reliably, no profit is recognised and revenue is recognised only to the extent of contract costs incurred that would probably be recoverable.

Provisions are made for any foreseeable losses when they are identified and recognised immediately as an expense in profit or loss. Variations in contract work, claims and incentive payments are recognised as revenue when it is probably that they will be approved by customers and they can be measured reliably.

Amounts due from customers of contract works represent contract costs incurred plus recognised profits less progress billings and any foreseeable losses. Amounts due to customers of contract works represent the excess of progress billings over contract costs incurred plus recognised profits less any foreseeable losses. Costs mainly comprise materials, direct labour and sub-contractors' fees. Costs incurred during the period in connection with future activity of a contract are recognised as amounts due from customers of contract work provided it is probably that these costs will be recovered. Amounts billed for works performed but not yet paid by the customers are included in the combined statements of financial position under "Trade and other receivables".

Retention monies, representing amounts of progress billings which are payable to sub-contractors or receivables from customers when conditions specified in the contracts undertaken are satisfied, are included in the combined statements of financial position under "Trade and other payables" and "Trade and other receivables" respectively.

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, high liquid investments with original maturities of three months or less that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

For the purpose of presentation in the combined statements of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### (i) Recognition of revenue and other income

Revenue and other income is recognised when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably, on the following basis:

- (i) When the outcome of construction contracts can be estimated reliably, revenue from construction works is recognised according to the percentage of completion of individual contract at the end of the reporting period.
- (ii) Interest income is recognised on a time proportion basis by reference to the principal outstanding using the effective interest method.
- (iii) Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

### (j) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or deductible for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

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### (k) Employee benefits

#### (i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

#### (iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

### (l) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### (m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

### (n) 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 key management personnel of the Group or the Company's parent.

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- (b) An entity is related to the Group if any of the following conditions apply:
- (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 the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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 and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

**(o) Non-current assets held for sale**

Non-current assets are classified as held for sale when:

- They are available for immediate sale;
- Management is committed to a plan to sell;
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- An active program to locate a buyer has been initiated;
- The asset is being marketed at a reasonable price in relation to its fair value; and
- A sale is expected to complete within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- Fair value less costs to sell.

Following their classification as held for sale, non-current assets are not depreciated.

**(p) Borrowings costs**

Borrowings costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowings costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



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### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

#### **Key sources of estimation uncertainty**

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have significant risks of resulting in material adjustments to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) *Construction contract*

Construction contract revenue is recognised according to the percentage of completion of individual construction contract which requires the estimation of contract costs and gross profit margin of each contract. Contract costs and gross profit margin of individual contract is determined based on budget of the contract which was prepared by the management. In order to ensure that the total estimated contract costs are accurate and up-to-date such that gross profit margin can be estimated reliably, management reviews the costs incurred to date and costs to completion regularly, in particular in the case of costs over-runs and revise the estimated contract costs where necessary. Recognition of variations and claims also requires significant estimation and judgement by the management.

Notwithstanding that, the management regularly reviews and revises the estimates of both contract costs and gross profit margin for the construction contracts as the contracts progress, the actual contract costs and gross profit margin may be higher or lower than the estimations and that will affect the revenue and gross profit recognised.

(ii) *Impairment of receivables*

The impairment policy for bad and doubtful debts of the Group is based on management's evaluation of collectability and ageing analysis of receivables (including amounts due from related parties) and on the specific circumstances for each account. Judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial condition of these customers was to deteriorate resulting in an impairment of their ability to make payments, additional allowance will be required.

(iii) *Impairment of non-financial assets receivables*

Management assesses impairment by evaluating conditions specific to the Group that may lead to impairment of non-financial assets. When an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market conditions existing at the reporting date and approximate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

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**6. SEGMENT REPORTING**

The executive directors of the Company, who are the chief operating decision-makers of the Group, review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on reports reviewed by the executive directors of the Company that are used to make strategy decision.

Management regularly reviews the operating results from a project-based perspective. The reportable operating segments derive their revenue primarily from provision of construction and consultancy works. Business segment information is not considered necessary.

As the executive directors consider the Group's revenue and results are all derived from provision of construction and consultancy works and project management services in Hong Kong and no Group's consolidated assets are located outside Hong Kong, geographical segment information is not considered necessary.

**Information about major customers**

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue, are set out below:

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000
Customer I	81,641	N/A	N/A	N/A
Customer II	48,469	66,910	23,469	N/A
Customer III	20,156	39,408	19,208	25,551
Customer IV	N/A	76,843	27,232	36,666
Customer V	N/A	53,413	16,890	28,360
Customer VI	N/A	48,052	18,267	20,512
Customer VII	N/A	N/A	N/A	17,977
Customer VIII	N/A	N/A	N/A	14,971

**7. REVENUE**

Revenue, which is also the Group's turnover, represents construction work income during the Relevant Periods.

**8. OTHER INCOME AND GAINS**

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000
Bank interest income	—	17	3	3
Sale of scrap materials	—	342	332	29
Interest income on amount due from a director	350	—	—	—
Rental income	127	213	75	—
Fair value gain on an investment property	40	—	—	—
Gain on disposal of non-current asset held for sale	—	—	—	400
Others	64	258	16	63
	<u>581</u>	<u>830</u>	<u>426</u>	<u>495</u>

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**9. PROFIT BEFORE INCOME TAX**

This is arrived at after charging the followings:

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Auditor's remuneration	82	116	36	53
Depreciation in respect of:				
— Owned assets	501	1,461	381	1,056
— Leased assets	1,083	2,443	1,221	1,127
	<u>1,584</u>	<u>3,904</u>	<u>1,602</u>	<u>2,183</u>
Employee benefit expenses (including directors' emoluments <i>(Note 12)</i> )				
— Salaries, allowances and other benefits	12,718	24,690	9,528	12,066
— Contribution to defined contribution retirement plan	551	662	215	484
	<u>13,269</u>	<u>25,352</u>	<u>9,743</u>	<u>12,550</u>
Operating lease payments in respect of land and buildings	<u>221</u>	<u>355</u>	<u>153</u>	<u>163</u>

**10. FINANCE COSTS**

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Interest on bank borrowings <i>(Note)</i>				
— Bank loans and overdraft wholly repayable within five years	882	1,295	596	749
— Bank loans wholly repayable after five years	22	62	18	49
Interest element of finance lease payments	<u>86</u>	<u>343</u>	<u>174</u>	<u>127</u>
	<u>990</u>	<u>1,700</u>	<u>788</u>	<u>925</u>

*Note:* This analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with scheduled repayment dates set out in the loan agreement. For the years ended 31 March 2014 and 2015 and the six months ended 30 September 2014 and 2015, all agreements of bank borrowings contain a repayment on demand clause.

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**11. INCOME TAX AND DEFERRED TAX**

(i) The amounts of income tax in the combined statements of comprehensive income represent:

	Year ended 31 March		Six months ended 30 September	
	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Current tax				
— Hong Kont Profits Tax	1,688	3,888	1,863	1,873
Deferred tax	246	447	157	(136)
	<u>1,934</u>	<u>4,335</u>	<u>2,020</u>	<u>1,737</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the Relevant Periods.

The income tax for the Relevant Periods can be reconciled to the profit before income tax in the combined statements of comprehensive income as follows:

	Year ended 31 March		Six months ended 30 September	
	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Profit before income tax	11,354	22,813	11,566	9,598
Tax calculated at tax rate of 16.5%	1,873	3,764	1,908	1,584
Tax effect of revenue not taxable for tax purposes	(27)	(2)	(12)	(66)
Tax effect of expenses not deductible for tax purposes	98	562	124	219
Tax effect of temporary differences not recognised	—	31	—	—
Tax relief for the year	(10)	(20)	—	—
Income tax	<u>1,934</u>	<u>4,335</u>	<u>2,020</u>	<u>1,737</u>

(ii) Details of the deferred tax liabilities recognised and movements during the Relevant Periods are as follows:

	Accelerated tax depreciation HK\$'000
At 1 April 2013	106
Charged to profit or loss	<u>246</u>
At 31 March 2014 and 1 April 2014	352
Charged to profit or loss	<u>447</u>
At 31 March 2015 and 1 April 2015	799
Credited to profit or loss	<u>(136)</u>
At 30 September 2015	<u>663</u>

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**12. DIRECTORS' EMOLUMENTS, HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS**

**(a) Directors' emoluments**

The emoluments of each of the directors for the Relevant Periods are set out below:

	Fees <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Pension scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 March 2014</b>					
<i>Executive directors</i>					
Mr. Ng	495	641	240	15	1,391
Mr. Lui	675	—	330	15	1,020
	<u>1,170</u>	<u>641</u>	<u>570</u>	<u>30</u>	<u>2,411</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Pension scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 March 2015</b>					
<i>Executive directors</i>					
Mr. Ng	550	1,056	268	18	1,892
Mr. Lui	730	—	390	18	1,138
Mr. Lam	456	—	255	12	723
	<u>1,736</u>	<u>1,056</u>	<u>913</u>	<u>48</u>	<u>3,753</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Pension scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Six months ended 30 September 2015</b>					
<i>Executive directors</i>					
Mr. Ng	300	469	75	9	853
Mr. Lui	390	—	98	9	497
Mr. Lam	318	—	80	9	407
	<u>1,008</u>	<u>469</u>	<u>253</u>	<u>27</u>	<u>1,757</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Pension scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Six months ended 30 September 2014 (unaudited)</b>					
<i>Executive directors</i>					
Mr. Ng	270	582	68	9	929
Mr. Lui	360	—	90	9	459
Mr. Lam	150	—	75	3	228
	<u>780</u>	<u>582</u>	<u>233</u>	<u>21</u>	<u>1,616</u>

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No emoluments were paid or payable to the independent non-executive directors during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived or agreed to waive any emoluments during the Relevant Periods.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group during each of the Relevant Periods included the following non-director individuals whose emoluments are as follows:

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Salaries, allowances and other benefits	[2,122]	[2,178]	[920]	[786]
Contribution to pension scheme	[33]	[35]	[17]	[18]
	<u>[2,155]</u>	<u>[2,213]</u>	<u>[937]</u>	<u>[804]</u>

Remuneration of these non-director highest paid individuals was within the following bands:

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
HK\$Nil – HK\$1,000,000	[3]	[1]	[2]	[2]
HK\$1,000,001 – HK\$1,500,000	[—]	[1]	[—]	[—]
	<u>[3]</u>	<u>[2]</u>	<u>[2]</u>	<u>[2]</u>

The remaining highest paid individuals are directors of the Company whose emoluments are reflected in the analysis presented in Note 12(a) above.

**(c) Senior management's emoluments**

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
HK\$Nil – HK\$1,000,000	[7]	[6]	[7]	[7]
HK\$1,000,001 – HK\$1,500,000	[—]	[1]	[—]	[—]
	<u>[7]</u>	<u>[7]</u>	<u>[7]</u>	<u>[7]</u>

**13. DIVIDENDS**

	Year ended 31 March		Six months ended 30 September	
	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Interim dividends	<u>16,465</u>	<u>5,550</u>	<u>[—]</u>	<u>[—]</u>

No dividend has been paid or declared by the Company since its incorporation. For the purpose of this Financial Information, the interim dividends for the years ended 31 March 2014 and 2015 represented interim dividends declared by a group entity to its then shareholder.

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No dividend has been paid or declared by any group entity of the Group during the six months ended 30 September 2014 and 2015.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Financial Information.

**14. EARNINGS PER SHARE**

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods on a combined basis as set out in Note 2 above.

**15. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and buildings</b> <i>HK\$'000</i>	<b>Leasehold improvements</b> <i>HK\$'000</i>	<b>Furniture and equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Machineries</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Cost</b>						
At 1 April 2013	7,378	117	839	3,766	—	12,100
Additions	—	—	390	—	4,057	4,447
At 31 March 2013 and 1 April 2014	7,378	117	1,229	3,766	4,057	16,547
Additions	10,112	517	395	510	8,039	19,573
Disposals	—	—	(206)	(71)	—	(277)
At 31 March 2015 and 1 April 2015	17,490	634	1,418	4,205	12,096	35,843
Additions	—	—	31	—	—	31
Disposals	—	—	(715)	—	—	(715)
At 30 September 2015	17,490	634	734	4,205	12,096	35,159
<b>Accumulated depreciation</b>						
At 1 April 2013	1,334	117	702	1,284	—	3,437
Charge for the year	107	—	205	924	348	1,584
At 31 March 2013 and 1 April 2014	1,441	117	907	2,208	348	5,021
Charge for the year	279	65	196	801	2,563	3,904
Write-off on disposals	—	—	(206)	(71)	—	(277)
At 31 March 2015 and 1 April 2015	1,720	182	897	2,938	2,911	8,648
Charge for the period	205	64	88	407	1,419	2,183
Write-off on disposals	—	—	(610)	—	—	(610)
At 30 September 2015	1,925	246	375	3,345	4,330	10,221
<b>Net carrying value</b>						
At 30 September 2015	15,565	388	359	860	7,766	24,938
At 31 March 2015	15,770	452	521	1,267	9,185	27,195
At 31 March 2014	5,937	—	322	1,558	3,709	11,526

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Notes:

- (a) The Group's leasehold land and buildings are situated in Hong Kong and are held under medium-term lease, which are pledged as securities for the bank facilities of the Group.
- (b) The net carrying amount of the Group's property, plant and equipment included in the following amounts in respect of assets held under finance leases:

	As at 31 March		As at
	2014	2015	30 September
	HK\$'000	HK\$'000	2015
			HK\$'000
Motor vehicles	1,541	1,267	860
Machineries	2,381	5,717	4,997
	<u>3,922</u>	<u>6,984</u>	<u>5,857</u>

**16. INVESTMENT PROPERTY AND NON-CURRENT ASSET HELD FOR SALE**

	As at 31 March		As at
	2014	2015	30 September
	HK\$'000	HK\$'000	2015
			HK\$'000
Fair value			
At beginning of year/period	4,560	4,600	—
Fair value gains	40	—	—
Transferred to non-current asset held for sale	—	(4,600)	—
At end of year/period	<u>4,600</u>	<u>—</u>	<u>—</u>

The Group's investment property was valued at 31 March 2014 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited located at 6/F Three Pacific Place, 1 Queen's Road East, Hong Kong, which is an independent firm of professionally qualified valuers, who has among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the property being valued. The valuation of the investment property was using direct comparison approach by making reference to comparable sales evidence as available in the relevant market. The valuation gave rise to net value gains of HK\$40,000 during the year ended 31 March 2014.

During the year ended 31 March 2015, the Group entered into a sale and purchase agreement to dispose of its investment property with the then carrying amount at HK\$4,600,000 and the disposal will be completed within 12 months. In accordance with HKFRS 5, the Group's investment property has been reclassified as non-current asset held for sale and stated at HK\$4,600,000 as at 31 March 2015. The property was disposed of during the six months ended 30 September 2015.

The fair value of the investment property is a Level 3 recurring fair value measurement. Under the direct comparison approach, significant inputs of the residential building include price per square feet ranging from approximately HK\$[11,000] to approximately HK\$[14,000] per square feet adjusted for discounts range from [4]% to [6]% specific to the location and age of the Group's residential property compared to recent sales on the comparable transactions. The fair value measurement of investment property is negatively correlated to the term yield, reversionary yield and positively correlated to average market unit rent per month under the investment approach.

The fair value measurement is based on the above property highest and best use, which does not differ from its current use.

Fair value adjustment of investment property is recognised in profit or loss. All the gains recognised in profit or loss for the year arise from the investment property held at the end of the reporting period.

There was no transfer between Levels 1, 2 and 3 during the Relevant Periods.

The Group's investment property was situated in the Hong Kong held under medium term lease as at 31 March 2014.



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**17. PLEDGED BANK DEPOSIT**

Pledged bank deposit is pledged to secured bank facilities of the Group.

**18. TRADE AND OTHER RECEIVABLES**

	<b>As at 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2015</b>
			<i>HK\$'000</i>
Trade receivables	22,159	38,420	[27,233]
Retention receivables	19,638	30,079	40,332
Deposits, prepayments and other receivables	<u>2,960</u>	<u>2,407</u>	<u>4,677</u>
	<u>44,757</u>	<u>70,906</u>	<u>72,242</u>

The ageing analysis of trade receivables, based on invoice date, as at the end of each of the Relevant Periods, is as follows:

	<b>As at 31 March</b>		<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2015</b>
			<i>HK\$'000</i>
Within 30 days	21,912	36,364	27,233
31–60 days	247	837	—
61–90 days	<u>—</u>	<u>1,219</u>	<u>—</u>
	<u>22,159</u>	<u>38,420</u>	<u>27,233</u>

The ageing analysis of trade receivables, based on due date, as at the end of each of the Relevant Periods, is as follows:

	<b>As at 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2015</b>
			<i>HK\$'000</i>
Neither past due nor impaired	<u>8,350</u>	<u>34,166</u>	<u>10,154</u>
Past due but not impaired			
Past due for less than 30 days	<u>13,809</u>	<u>4,254</u>	<u>17,079</u>
	<u>22,159</u>	<u>38,420</u>	<u>27,233</u>

Receivables that were neither past due nor impaired related to a range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to customers with long business relationship. Based on past experience, management believes that no impairment allowance is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Credit terms granted to our customers vary from contract to contract, which are generally within [7] days from invoice date.

**19. PLEDGED DEPOSITS**

Pledged deposits are placed with insurance companies as collaterals for the surety bonds issued in favour of the customers of certain construction contracts. [The Group has unconditionally and irrevocably agreed to indemnify the insurance companies for claims and losses the insurance companies may incur in respect of the surety bonds.]

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**20. AMOUNTS DUE FROM/(TO) CUSTOMERS OF CONTRACT WORK**

	<b>As at 31 March 2014</b>	<b>2015</b>	<b>As at 30 September 2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs incurred to date plus recognised profits	305,515	641,315	785,235
Less: Progress billings to date	<u>(323,356)</u>	<u>(663,880)</u>	<u>(817,524)</u>
	<u>(17,841)</u>	<u>(22,565)</u>	<u>(32,289)</u>
Amounts due from customers of contract work	13,829	11,547	12,245
Amounts due to customers of contract work	<u>(31,670)</u>	<u>(34,112)</u>	<u>(44,534)</u>
	<u>(17,841)</u>	<u>(22,565)</u>	<u>(32,289)</u>

**21. AMOUNTS DUE WITH RELATED COMPANIES AND A DIRECTOR**

- (i) Particulars of the amounts due from related companies, disclosed pursuant to the Hong Kong Companies Ordinance, are as follows:

	<b>As at 1 April 2013</b>	<b>As at 31 March 2014</b>	<b>Maximum outstanding amount during the year</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Strong Knight Limited	8,910	15,793	[15,793]

	<b>As at 1 April 2014</b>	<b>As at 31 March 2015</b>	<b>Maximum outstanding amount during the year</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Able Vantage Guesthouse Company Limited	—	10	[10]
Strong Knight Limited	<u>15,793</u>	<u>15,821</u>	<u>[15,821]</u>
	<u>15,793</u>	<u>15,831</u>	

	<b>As at 1 April 2015</b>	<b>As at 30 September 2015</b>	<b>Maximum outstanding amount during the period</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Able Vantage Guesthouse Company Limited	10	[60]	[60]
Strong Knight Limited	<u>15,821</u>	<u>[15,822]</u>	<u>[15,822]</u>
	<u>15,831</u>	<u>[15,882]</u>	

Notes:

- (a) The amounts due are unsecured, interest-free and repayable on demand.
- (b) A director, who is also the beneficial owner of the Company, is also a director and beneficial owner of the above companies.

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- (ii) Particulars of the amount due from a director, disclosed pursuant to the Hong Kong Companies Ordinance, are as follows:

Name of director	As at	As at	Maximum outstanding amount during the year
	1 April 2013	31 March 2014	
Mr. Ng	19,077	9,629	[22,418]

Name of director	As at	As at	Maximum outstanding amount during the year
	1 April 2014	31 March 2015	
Mr. Ng	9,629	32,727	[32,727]

Name of director	As at	As at	Maximum outstanding amount during the period
	1 April 2015	30 September 2015	
Mr. Ng	32,727	41,136	[41,136]

The amounts due with a director are unsecured, interest-free and repayable on demand except that the amount due from the director as at 31 March 2014 was interest-bearing at a rate of 2% per annum.

**22. TRADE AND OTHER PAYABLES**

	As at 31 March		As at
	2014	2015	30 September 2015
Trade payables	21,410	42,873	43,878
Bills payable	1,576	8,230	4,283
Trade and bills payables ( <i>Note (a)</i> )	22,986	51,103	48,161
Retention payables ( <i>Note (b)</i> )	1,884	2,687	3,292
Other payables, accruals and deposits received	7,015	8,017	6,818
	<u>31,885</u>	<u>61,807</u>	<u>58,271</u>

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*Note:* [The Group's bills payables are repayable within 120 days. For other trade payables, the credit period granted by suppliers and contractors is normally 30 to 60 days.]

The ageing analysis of trade payables, based on invoice date, as of the end of each of the Relevant Periods is as follows:

	As at 31 March		As at
	2014	2015	30 September
	HK\$'000	HK\$'000	2015
			HK\$'000
0 – 30 days	18,811	36,208	26,343
31 – 60 days	1,498	1,183	4,324
61 – 90 days	704	99	4,108
Over 90 days	397	5,383	9,103
	<u>21,410</u>	<u>42,873</u>	<u>43,878</u>

**23. OBLIGATIONS UNDER FINANCE LEASES**

The Group leases certain of its motor vehicles and machineries and these leases are classified as finance leases. The lease obligations are secured by the underlying leased assets. The future lease payments under the finance leases are due as follows:

	Minimum lease payments	Interest	Present value of minimum lease payments
	HK\$'000	HK\$'000	HK\$'000
<b>As at 31 March 2014</b>			
Not later than one year	1,379	131	1,248
Later than one year but not later than five years	<u>2,855</u>	<u>116</u>	<u>2,739</u>
	<u>4,234</u>	<u>247</u>	<u>3,987</u>
<b>As at 31 March 2015</b>			
Not later than one year	3,388	216	3,172
Later than one year but not later than five years	<u>2,872</u>	<u>82</u>	<u>2,790</u>
	<u>6,260</u>	<u>298</u>	<u>5,962</u>

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	<b>Minimum lease payments HK\$'000</b>	<b>Interest HK\$'000</b>	<b>Present value of minimum lease payments HK\$'000</b>
<b>As at 30 September 2015</b>			
Not later than one year	3,049	137	2,912
Later than one year but not later than five years	<u>1,516</u>	<u>32</u>	<u>1,484</u>
	<u><u>4,565</u></u>	<u><u>169</u></u>	<u><u>4,396</u></u>

The present value of future lease payments are analysed as:

	<b>As at 31 March 2014 HK\$'000</b>	<b>2015 HK\$'000</b>	<b>As at 30 September 2015 HK\$'000</b>
Current liabilities	1,248	3,172	2,912
Non-current liabilities	<u>2,739</u>	<u>2,790</u>	<u>1,484</u>
	<u><u>3,987</u></u>	<u><u>5,962</u></u>	<u><u>4,396</u></u>

*Notes:*

- (a) The effective interest rates of the Group's obligations under finance lease liabilities as at 31 March 2014 and 2015 and 30 September 2015 ranged from 2.00% to 3.75%, per annum respectively.
- (b) As at 30 September 2015, the obligations under finance leases of HK\$[1,110,000] (31 March 2015: HK\$1,466,000; 31 March 2014: HK\$2,159,000) were secured by personal guarantee of a director of the Company.

**24. BANK BORROWINGS, SECURED**

	<b>As at 31 March 2014 HK\$'000</b>	<b>2015 HK\$'000</b>	<b>As at 30 September 2015 HK\$'000</b>
<b>Current liabilities</b>			
<b>Secured and interest-bearing bank borrowings</b>			
Bank overdraft ( <i>Note (a)</i> )	<u>3,514</u>	<u>—</u>	<u>—</u>
Bank loans subject to repayment on demand clause ( <i>Note (a)</i> )			
— Bank loans due for repayment within one year	19,922	38,792	34,465
— Bank loans due for repayment after one year ( <i>Note (b)</i> )	<u>15,840</u>	<u>17,562</u>	<u>14,823</u>
	<u><u>35,762</u></u>	<u><u>56,354</u></u>	<u><u>49,288</u></u>
	<u><u>39,276</u></u>	<u><u>56,354</u></u>	<u><u>49,288</u></u>

*Notes:*

- (a) Bank loans and bank overdraft are interest-bearing at floating rates. The interest rates of the Group's bank loans and bank overdraft as at 31 March 2014 and 2015 and 30 September 2015 granted under banking facilities ranged from 0.91% to 3.58% per annum.

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- (b) [The current liabilities as at 31 March 2014 and 2015 and 30 September 2015 include such bank loans that are not scheduled to repay within one year after the end of the reporting periods. They are classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at their own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that are classified as current liabilities are expected to be settled within one year].
- (c) As at the end of each of Relevant Periods unless stated otherwise, the Group's banking facilities are secured by:
- (i) personal guarantees of a director of the Company;
  - (ii) time deposit;
  - (iii) leasehold land and buildings and investment property of the Group;
  - (iv) certain properties of related companies and a director of the Company;
  - (v) certain properties of a director's spouse as at 31 March 2014; and
  - (vi) loan guarantees issued by the Government of the Hong Kong Special Administrative Region.

[The indemnity provided by the director will be fully released, discharged or replaced by corporate guarantee or other securities provided by the Group, and guarantees issued under the Special Loan Guarantee Scheme operated by the Government of the Hong Kong Special Administrative Region will be released and repaid in full upon [REDACTED] of the Company's shares on the Stock Exchange.]

As at 31 March 2014 and 2015 and 30 September 2015, the Group's bank borrowings were scheduled to repay as of the end of each of the Relevant Periods as follows:

	<b>As at 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	23,436	38,792	34,465
More than one year, but not exceeding two years	4,443	5,200	4,872
More than two years, but not exceeding five years	10,264	8,889	6,655
More than five years	<u>1,133</u>	<u>3,473</u>	<u>3,296</u>
	<u>39,276</u>	<u>56,354</u>	<u>49,288</u>

*Note:* The amounts due are based on the scheduled repayment dates in the loan agreements and no effect of any repayment on demand clause is taken into account.

**25. SHARE CAPITAL**

The movements of the Company's authorised and issued share capital are set in Note 2.

For the purpose of this Financial Information, the share capital balance in the combined statements of financial position as at end of each of the Relevant Periods represented the aggregate amount of issued share capital of Ching Lee Engineering, Ching Lee Foundation, Ching Lee Construction and Right Lucky as at that date.

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**26. OPERATING LEASE COMMITMENTS**

**Operating leases — The Group as lessee**

The Group leases office premises under operating lease arrangement. The leases run for an initial period of one to two years and are non-cancellable. The total future minimum lease payments under these leases are due as follows:

	<b>As at 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
Within one year	358	1,131	666
Later than one year and not more than five years	194	247	100
	<u>552</u>	<u>1,378</u>	<u>766</u>

**27. RELATED PARTY TRANSACTIONS**

Saved as disclosed elsewhere in this Financial Information, the Group has the following significant transactions with related parties.

- (a) During the year ended 31 March 2014, the Group received interest income on amount due from a director. Related party transactions were conducted based on the terms mutually agreed between both parties.
- (b) During the Relevant Periods, certain office premises of the Group were leased from a director and a company controlled by him at nil consideration and certain leasehold land and buildings of the Group were provided as staff quarter to a director.
- (c) Compensation of key management personnel

Remuneration of key management personnel, who are executive directors of the Company, during the Relevant Periods were disclosed in Note 12.

**28. GUARANTEES**

The Group provided guarantees in respect of the surety bonds issued in favour of the customers of certain construction contracts. Details of these guarantees as of the end of each of the Relevant Periods are as follows:

	<b>As at 31 March</b>		<b>As at</b>
	<b>2014</b>	<b>2015</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2015</i>
			<i>HK\$'000</i>
Aggregate value of the surety bonds issued in favour of customers	<u>34,469</u>	<u>38,340</u>	<u>35,454</u>

The directors are of the opinion that it is not probable that the insurance companies would claim the Group for losses in respect of the guarantee contracts as it is unlikely that the Group is unable to fulfil the performance requirements of the relevant contracts. Accordingly, no provision for the Group's obligations under the guarantees has been made as at the end of each Relevant Periods. [Moreover, certain surety bonds are also secured by personal guarantees of the Company's directors and corporate guarantee of a related company.]

**29. LITIGATIONS**

During the Relevant Periods, lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as of the end of each of the Relevant Periods. In the opinion of the directors, sufficient insurance coverage is maintained to cover the losses, if any, arising from most of these lawsuits and claims, or based on opinion from legal counsel, it is difficult at this stage to estimate the possible outflow of economic benefits for certain lawsuits and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group or no provision should be made.

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**30. NOTES SUPPORTING COMBINED STATEMENTS OF CASH FLOWS**

During the two years ended 31 March 2014 and 2015 and the six months ended 30 September 2014 and 2015, the Group entered into finance lease arrangements in respect of acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$[2,159,000], HK\$[4,759,000], HK\$[4,759,000] and HK\$[Nil] respectively.

For the year ended 31 March 2015, a group entity declared interim dividend amounted to HK\$5,550,000 (2014: interim dividends of aggregate HK\$16,465,000) to its then shareholder, who is also a director and shareholder of the Company. The amount was fully set off in amount due from a director. For the year ended 31 March 2014, the interest income on amount due from a director is included in the amount due from a director as at 31 March 2014.

**31. CAPITAL COMMITMENT**

As at 31 March 2014 and 2015 and 30 September 2015, the Group did not have any capital commitment.

**32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY**

The following table shows the carrying amounts of financial assets and liabilities:

	As at 31 March		As at 30 September
	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000
<b>Financial assets</b>			
<i>Loans and receivables at amortised costs</i>			
— Trade and other receivables	44,757	70,906	72,242
— Pledged deposits	13,388	14,259	10,766
— Amounts due from related companies	15,793	15,831	15,882
— Amount due from a director	9,629	32,727	41,136
— Pledged bank deposit	—	1,007	1,010
— Bank balances and cash	3,280	5,874	13,580
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Financial liabilities</b>			
<i>Financial liabilities at amortised costs</i>			
— Trade and other payables	31,885	61,807	58,271
— Amount due to a director	2,397	2,858	2,858
— Obligations under finance leases	3,987	5,962	4,396
— Bank borrowings, secured	39,276	56,354	49,288
	<u>          </u>	<u>          </u>	<u>          </u>

Above financial instruments are not measured at fair value due to their short term nature, the carrying values of the above financial instruments approximate their fair values.

**33. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT**

The Group is exposed to a variety of financial risks which comprise credit risk, interest rate risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

Generally, the Group employs a conservative strategy regarding its financial risk management. As the directors consider that the Group's exposure to financial risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The most significant risks to which the Group is exposed to are described below:

**(a) Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.



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The Group's credit risk is primarily attributable to its trade and other receivables, amounts due from customers of contract work, pledged deposits, pledged bank deposit, amounts due from related companies and a director, and bank balances. Management has a credit policy in place and the exposures to credit risk are monitored on an ongoing basis.

In respect of trade and other receivables, it is the Group's policy to deal only with creditworthy counterparties. In order to minimise credit risk, management has formulated a credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Normally, the Group does not obtain collateral from the counterparties.

In respect of cash and bank balances, pledged deposits and pledged bank deposits, the credit risk is limited because majority of the deposits are placed with reputable banks and financial institutions.

The Group provides guarantees in respect of the surety bonds issued in favour of several customers. As at 31 March 2014 and 2015 and 30 September 2015, the maximum exposure to credit risk of guarantees issued by the Group represented the maximum amount the Group could be required to pay if the guarantees were called on, which are disclosed in Note 28. Management considers it is unlikely that the Group is unable to fulfil the performance requirements of the relevant contracts and accordingly, the Group's exposure to credit risk in this regard is low.

The credit policies have been consistently applied and are considered to be effective in limiting the Group's exposure.

**(b) Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from bank borrowings. Borrowings arranged at variable rates expose the Group to cash flow interest rate risk.

All of the Group's bank borrowings as at 31 March 2014 and 2015 and 30 September 2015 bore interest at floating rates. Details of bank loans are disclosed in Note 24.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

*Sensitivity analysis*

The following sensitivity analysis demonstrates the Group's exposure to a reasonable possible change in interest rates on its floating-rate bank borrowings with all other variables held constant at the end of each of the reporting periods (in practice, the results may differ from the sensitivity analysis below and the difference could be material):

	<b>Increase/(decrease) in profit for the year/period and retained profits</b>			
	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Changes in interest rate</b>				
+1%	(393)	(564)	(476)	(493)
-1%	393	564	476	493
	<u>393</u>	<u>564</u>	<u>476</u>	<u>493</u>

The changes in interest rates do not affect the Group's other component of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the bank borrowings outstanding at the end of each of the reporting periods resembles that of the corresponding financial years. The assumed changes in interest rate are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

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**ACCOUNTANT'S REPORT**

(c) **Liquidity risk**

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management. 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 liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

The following tables summarise the remaining contractual maturities of the Group's financial liabilities including bank loans with repayment on demand clause, based on undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates ruling at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for bank loans which contain repayment on demand clause which can be exercised at bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	<b>Carrying amount</b> <i>HK\$'000</i>	<b>Total contractual undiscounted cash flow</b> <i>HK\$'000</i>	<b>Within 1 year or on demand</b> <i>HK\$'000</i>	<b>More than 1 year but less than 2 years</b> <i>HK\$'000</i>	<b>More than 2 years but less than 5 years</b> <i>HK\$'000</i>	<b>More than 5 years</b> <i>HK\$'000</i>
<b>At 31 March 2014</b>						
Trade and other payables	31,885	31,885	31,885	—	—	—
Bank loans subject to repayment on demand clause	35,762	35,762	35,762	—	—	—
Bank overdraft	3,514	3,514	3,514	—	—	—
Amount due to a director	2,397	2,397	2,397	—	—	—
Obligations under finance leases	3,987	4,234	1,380	1,380	1,474	—
	<u>77,545</u>	<u>77,792</u>	<u>74,938</u>	<u>1,380</u>	<u>1,474</u>	<u>—</u>
	<b>Carrying amount</b> <i>HK\$'000</i>	<b>Total contractual undiscounted cash flow</b> <i>HK\$'000</i>	<b>Within 1 year or on demand</b> <i>HK\$'000</i>	<b>More than 1 year but less than 2 years</b> <i>HK\$'000</i>	<b>More than 2 years but less than 5 years</b> <i>HK\$'000</i>	<b>More than 5 years</b> <i>HK\$'000</i>
<b>At 31 March 2015</b>						
Trade and other payables	61,807	61,807	61,807	—	—	—
Bank loans subject to repayment on demand clause	56,354	56,354	56,354	—	—	—
Amount due to a director	2,858	2,858	2,858	—	—	—
Obligations under finance leases	5,962	6,260	3,388	2,434	438	—
	<u>126,981</u>	<u>127,279</u>	<u>124,407</u>	<u>2,434</u>	<u>438</u>	<u>—</u>

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	<b>Carrying amount</b> <i>HK\$'000</i>	<b>Total contractual undiscounted cash flow</b> <i>HK\$'000</i>	<b>Within 1 year or on demand</b> <i>HK\$'000</i>	<b>More than 1 year but less than 2 years</b> <i>HK\$'000</i>	<b>More than 2 years but less than 5 years</b> <i>HK\$'000</i>	<b>More than 5 years</b> <i>HK\$'000</i>
<b>At 30 September 2015</b>						
Trade and other payables	58,271	58,271	58,271	—	—	—
Bank loans subject to repayment on demand clause	49,288	49,288	49,288	—	—	—
Amount due to a director	2,858	2,858	2,858	—	—	—
Obligations under finance leases	4,396	4,565	3,049	1,360	156	—
	<u>114,813</u>	<u>114,982</u>	<u>113,466</u>	<u>1,360</u>	<u>156</u>	<u>—</u>

The following tables summarise the maturity analysis of the Group’s bank loans (excluding bank overdraft) with repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the “on demand” time banding in the maturity analysis contained above. Taking into account the Group’s financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	<b>Carrying amount</b> <i>HK\$'000</i>	<b>Total contractual undiscounted cash flow</b> <i>HK\$'000</i>	<b>Within 1 year or on demand</b> <i>HK\$'000</i>	<b>More than 1 year but less than 2 years</b> <i>HK\$'000</i>	<b>More than 2 years but less than 5 years</b> <i>HK\$'000</i>	<b>More than 5 years</b> <i>HK\$'000</i>
<b>Bank loans subject to repayment on demand clause</b>						
As at 31 March 2014	<u>35,762</u>	<u>36,833</u>	<u>20,383</u>	<u>4,568</u>	<u>10,483</u>	<u>1,399</u>
As at 31 March 2015	<u>56,354</u>	<u>57,632</u>	<u>39,066</u>	<u>5,376</u>	<u>9,206</u>	<u>3,984</u>
As at 30 September 2015	<u>49,288</u>	<u>50,400</u>	<u>34,667</u>	<u>5,028</u>	<u>6,934</u>	<u>3,771</u>

**(d) Capital management**

The Group’s capital management objectives are to safeguard the Group’s ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, to maintain an optimal capital structure, to reduce the cost of capital and to support the Group’s stability and growth.

The Group monitors capital using gearing ratio, which is total debt to equity. Total debts include bank borrowings and obligations under finance leases. Equity represents total equity of the Group.

The directors of the Company actively and regularly review and manage the Group’s capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholder’s returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, raise new debts or sells assets to reduce debts.

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The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 March		As at
	2014	2015	30 September
	HK\$'000	HK\$'000	2015
			HK\$'000
Bank borrowings, secured	39,276	56,354	49,288
Obligations under finance leases	<u>3,987</u>	<u>5,962</u>	<u>4,396</u>
Total debts	<u>43,263</u>	<u>62,316</u>	<u>53,684</u>
Total equity	<u>7,177</u>	<u>20,105</u>	<u>27,966</u>
Gearing ratio	<u>603%</u>	<u>310%</u>	<u>192%</u>

**34. EVENTS AFTER THE REPORTING DATE**

The following significant events took place subsequent to 30 September 2015:

- (a) [A property of the Group has been disposed of to Mr. Ng and certain properties were acquired from Mr. Ng and a related company in [●] 2015. The considerations of the disposal and acquisition of the properties were set at the fair value of the properties at the respective date of disposal or acquisition].
- (b) [Pursuant to the resolution passed by the shareholder of the Company on [Date], the authorised share capital of the Company has been increased from HK\$[●] to HK\$[●] by the creation of additional [●] shares of HK\$0.01 each.]
- (c) [Pursuant to the resolution passed by the shareholder of the Company on [Date], and subject to the same conditions as stated in the sub-paragraph headed “Conditions of the [REDACTED]” in the section headed “Structure and Conditions of the [REDACTED]” included in the Document of the Company, the following have been approved:
  - (i) The [REDACTED] of [●] new shares of the Company at [REDACTED] of HK\$[●] per [REDACTED] share (the “[REDACTED]”); and
  - (ii) Conditional on the share premium account of the Company being credited with the proceeds from the [REDACTED], HK\$[●] will be capitalised from the share premium account of the Company and applied in paying up in full [●] new shares for the allotment and issuance to the existing shareholder of the Company, being JT Glory Limited on or prior to the [REDACTED] of the shares.]

**III. SUBSEQUENT FINANCIAL STATEMENTS**

[No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 September 2015.]

Yours faithfully,

**BDO Limited**  
*Certified Public Accountants*

[●]  
 Practising Certificate number: [●]  
 Hong Kong

**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The information set forth in this appendix does not form part of the Accountant's Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix [I] to this document, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountant's Report set forth in Appendix [I] to this document.

**(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP**

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group prepared in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the [REDACTED] might have affected the combined net tangible assets of the Group attributable to owners of the Company after the completion of the [REDACTED] as if the [REDACTED] had taken place on 30 September 2015. Because of its hypothetical nature, this unaudited pro forma statement of adjusted combined net tangible assets of the Group may not give a true picture of the financial position of the Group had the [REDACTED] been completed on 30 September 2015 or at any future dates.

	<b>Combined net tangible assets of the Group attributable to owners of the Company as at 30 September 2015</b>	<b>Estimated net proceeds from the [REDACTED]</b>	<b>Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company</b>	<b>Unaudited pro forma adjusted combined net tangible assets per Share</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Based on [REDACTED] of HK\$[REDACTED] per [REDACTED] Share	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Based on [REDACTED] of HK\$[REDACTED] per [REDACTED] Share	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

*Notes:*

- [The combined net tangible assets of the Group attributable to owners of the Company as at 30 September 2015 are based on the audited combined net assets of the Group attributable to owners of the Company as at 30 September 2015 of HK\$[27,966,000] as shown in the Accountant's Report set out in Appendix I to this document.]
- [The estimated net proceeds from the [REDACTED] are based on [REDACTED] [REDACTED] and the [REDACTED] of lower limit and upper limit of HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED] Share, respectively, after deduction of the underwriting fees and related expenses payable and borne by the Company which has not been reflected in combined net tangible assets of the Group as at 30 September 2015. No account has been taken of any Share which may be issued upon the exercise of any option that may be granted under the Share Option Scheme.]

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

3. The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on **[REDACTED]** Shares in issue immediately following the completion of the **[REDACTED]** and the Capitalisation Issue, without taking into account of any Share which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme or any Share which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchases of Shares referred to in Appendix V to this document.
4. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2015.

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*[The following is the text of a report, prepared for inclusion in this document, received from the reporting accountant of the Company, BDO Limited, Certified Public Accountants, Hong Kong, in relation to the Group’s unaudited pro forma financial information.]*

**[REDACTED]**

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

[REDACTED]



**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

[REDACTED]

**APPENDIX III**

**PROPERTY VALUATION REPORT**

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 October 2015 of the property interests held by the Group.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No: C-030171

**[REDACTED]**

The Board of Directors  
**Ching Lee Holdings Limited**  
Room 203, 2/F,  
Hang Bong Commercial Centre,  
No. 28 Shanghai Street,  
Jordan, Kowloon,  
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests held by Ching Lee Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 October 2015 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property interests in Group I which are held and occupied by the Group and property interests in Group II which are to be disposed by the Group by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

We have also attributed no commercial value to the property interests in Group III, which has not been assigned to the Group as at the valuation date, thus the title of the property is not vested in the Group.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal

**APPENDIX III**

**PROPERTY VALUATION REPORT**

Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

In valuing the property interest of the Group in Hong Kong held under the Government Leases expiring before 30th June, 1997, we have taken into account the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30th June 2047 and that a rent of three per cent of the then ratable value is charged per annum from the date of extension.

We have caused searches to be made at the Hong Kong Land Registry. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken. We have inspected the exterior and where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 25 November 2015 by Mr. Isaac Yip and Ms. Tracy Yuen. Mr. Isaac Yip has 10 years' experience in the valuation of properties in Hong Kong.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollar (HKD).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully, for and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Director*

*Note:* Eddie T.W. Yiu is a Chartered Surveyor who has 21 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**SUMMARY OF VALUES**

**Group I — Property interests held and occupied by the Group in Hong Kong**

<b>No.</b>	<b>Property</b>	<b>Market value in existing state as at 31 October 2015 HKD</b>
1.	Shops 2, 4 and 5 on 2nd Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street, Kowloon	15,570,000
	<b>Sub-total:</b>	<u>15,570,000</u>

**Group II — Property interests to be disposed by the Group in Hong Kong**

<b>No.</b>	<b>Property</b>	<b>Market value in existing state as at 31 October 2015 HKD</b>
2.	Flat B on 27th Floor of Tower 7, Island Harbourview, No. 11 Hoi Fai Road, Kowloon	17,600,000
	<b>Sub-total:</b>	<u>17,600,000</u>

**Group III — Property interests to be acquired by the Group in Hong Kong**

<b>No.</b>	<b>Property</b>	<b>Market value in existing state as at 31 October 2015 HKD</b>
3.	Shops 3, 11 and 12 on 2nd Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street, Kowloon	No commercial value
4.	Workshop 6 on 8th Floor, Ho Lik Centre, No. 66A Sha Tsui Road, New Territories	No commercial value
	<b>Sub-total:</b>	<u>Nil</u>
	<b>Grand-total:</b>	<u>33,170,000</u>

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**PROPERTY VALUATION REPORT**

**VALUATION CERTIFICATE**

**Group I — Property interests held and occupied by the Group in Hong Kong**

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2015 HKD
1.	Shops 2, 4 and 5 on 2nd Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street, Kowloon  727/43880 parts or shares of and in Kowloon Inland Lot Nos. 8173, 8187, 8519, 7154, 9910 and 7156	The property comprises 3 units on the 2nd floor of a 22-storey commercial/office building completed in 1994.  The units have a total gross area of approximately 137.03 sq.m. (or 1,475 sq.ft.) or a total saleable area of approximately 100.61 sq.m. (or 1,083 sq.ft.)  The property is held under various leases subject to a payment of an annual Government Rent for the lots of HKD584. (See Notes No. 2 for details)	The property is currently occupied by the Group for office purpose.	15,570,000

*Notes:*

- The property is situated on the east side of Shanghai Street close to the junction with Bowring Street. The general area is characterized by middle to high-rise composite buildings, commercial buildings and tenement buildings of various ages.
- The property is held under various leases as follows:

Lot No.	Lease	Lease term	Commencement of lease term
KIL 8173	Government Lease	150 years	24 June 1887
KIL 8187	Conditions of Re-Grant No. UB7031	150 years	25 December 1887
KIL 8519	Conditions of Re-Grant No. UB7912	150 years	25 December 1887
KIL 7154	Conditions of Re-Grant No. UB6969	150 years	25 December 1887
KIL 9910	Conditions of Sale No. UB10085	75 years	25 December 1962
KIL 7156	Conditions of Re-Grant No. UB5892	150 years	25 December 1887

- According to the Approved Tsim Sha Tsui Outline Zoning Plan No. S/K1/28 dated 13 December 2013, the site of the property is zoned as Residential (Group A).

## APPENDIX III

## PROPERTY VALUATION REPORT

4. The registered owners of the property are the wholly-owned subsidiaries of the Company as follows:

Property	Registered owner	Memorial No.	Date of instrument	Consideration
Shop 2	Right Lucky Limited	14082002580032	31 July 2014	HKD4,980,000
Shop 4	Ching Lee Construction Limited	10031902940120	4 March 2010	HKD2,000,000
Shop 5	Right Lucky Limited	14121202610025	28 November 2014	HKD4,430,000

5. Pursuant to the land search record, the property is subject to, inter alia, the following encumbrances:

- a. Occupation Permit No. K40/94 vide Memorial No. UB6126540 dated 23 September 1994.
- b. Certificate of Compliance vide Memorial No. UB6194549 dated 23 December 1994.
- c. Deed of Mutual Covenant and Management Agreement vide Memorial No. UB6205644 dated 3 January 1995.
- d. Mortgage to secure all moneys in respect of general banking facilities in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 12081302270294 (Re.: Shop 4) dated 30 July 2012.
- e. Rent Assignment in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 12081302270309 (Re.: Shop 4) dated 30 July 2012.
- f. Mortgage for all monies in favour of Dah Sing Bank, Limited vide Memorial No. 14082002580045 dated 31 July 2014 (Re.: Shop 2).
- g. Second Mortgage for all monies in favour of Dah Sing Bank, Limited vide Memorial No. 14082002580056 dated 31 July 2014 (Re.: Shop 2).
- h. Mortgage for all monies in favour of Dah Sing Bank, Limited vide Memorial No. 14121202610035 dated 28 November 2014 (Re.: Shop 5).
- i. Rental Assignment in favour of Dah Sing Bank, Limited vide Memorial Nos. 14121202610046 and 14121202610062 dated 28 November 2014 (Re.: Shop 5).
- j. Second Mortgage for all monies in favour of Dah Sing Bank, Limited vide Memorial No. 14121202610056 dated 28 November 2014. (Re.: Shop 5)

6. Upon inspection, we noted that the Shops 2, 3, 4 and 5 had been repartitioned as a combined unit and a portion of common corridor (please refer to Note 7) was occupied by the Group, and Shops 11 and 12 had been repartitioned as a combined unit. In our valuation, we have assumed that the property is in its original layout and free from alteration and addition works and unauthorized structure.

7. In accordance with the Deed of Mutual Covenant, the right to the exclusive use of the occupied portion of common corridor, as mentioned in Note 6, shall be reserved to the owner who owns all the units of Units 2, 3 and 4 on 2nd floor and that occupied portion shall cease to be building common area.

8. Our valuation has been made on the following basis and analysis:

- a. In our valuation, we have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables range from HKD13,600/sq.ft. to HKD17,900/sq.ft. on saleable area. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed unit rate of HKD14,377/sq.ft. on saleable area for the subject property; and
- b. The unit rate of the property is in line with the unit rate of these comparables within a reasonable range.

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**VALUATION CERTIFICATE**

**Group II — Property interests to be disposed by the Group in Hong Kong**

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2015 HKD
2.	Flat B on 27th Floor of Tower 7, Island Harbourview, No. 11 Hoi Fai Road, Kowloon  1106/3980030 parts or shares of and in Kowloon Inland Lot No. 11074	The property comprises a unit on the 27th floor of a 37-storey residential building completed in 2000.  The unit has a gross area of approximately 111.95 sq.m. (or 1,205 sq.ft.) or a saleable area of approximately 85.10 sq.m. (or 916 sq.ft.)  The property is held under Conditions of Grant No. 12375 for a term commencing from 31 January 1996 and expiring on 30 June 2047 subject to a payment of an annual Government Rent of 3% of the rateable value for the time being of the lot.	The property is currently occupied by the Group for residential purpose.	17,600,000

*Notes:*

1. The property is situated on the east side of Hoi Fai Road at the junction with Cherry Street. The general area is characterized by private residential estates.
2. The registered owner of the property is Ching Lee Engineering Limited, a wholly-owned subsidiary of the Company, vide Memorial No. UB8653688 dated 15 March 2002.
3. According to the Approved South West Kowloon Outline Zoning Plan No. S/K20/30 dated 3 October 2014, the site of the property is zoned as Residential (Group A).
4. Pursuant to the land search record, the property is subject to, inter alia, the following encumbrances:
  - a. Deed of Mutual Covenant and Management Agreement vide Memorial No. UB8030989 dated 15 March 2000.
  - b. Occupation Permit No. PR9/2000 vide Memorial No. UB8097166 dated 4 May 2000.
  - c. Legal Charge/Mortgage in favour of Standard Chartered Bank vide Memorial No. UB8653689 dated 15 March 2002.
  - d. Second Legal Charge/Mortgage for all monies in favour of Standard Chartered Bank (Hong Kong) Limited vide Memorial No. 13111502450122 dated 31 October 2013.
5. Our valuation has been made on the following basis and analysis:
  - a. In our valuation, we have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables range from HKD18,300/sq.ft. to HKD20,900/sq.ft. on saleable area. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed unit rate of HKD19,200/sq.ft. on saleable area for the subject property; and
  - b. The unit rate of the property is in line with the unit rate of these comparables within a reasonable range.

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**VALUATION CERTIFICATE**

**Group III — Property interests to be acquired by the Group in Hong Kong**

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2015 <i>HKD</i>
3.	Shops 3, 11 and 12 on 2nd Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street, Kowloon  647/43880 parts or shares of and in Kowloon Inland Lot Nos. 8173, 8187, 8519, 7154, 9910 and 7156	The property comprises 3 units on the 2nd floor of a 22-storey commercial/office building completed in 1994.  The units have a total gross area of approximately 128.21 sq.m. (or 1,380 sq.ft.) or a total saleable area of approximately 94.11 sq.m. (or 1,013 sq.ft.)  The property is held under various leases subject to a payment of an annual Government Rent for the lots of HKD584. (See Notes No. 2 for details)	The property is currently occupied by the Group for office purpose.	No commercial value

*Notes:*

- The property is situated on the east side of Shanghai Street close to the junction with Bowring Street. The general area is characterized by middle to high-rise composite buildings, commercial buildings and tenement buildings of various ages.
- The property is held under various leases as follows:

Lot No.	Lease	Lease term	Commencement of lease term
KIL 8173	Government Lease	150 years	24 June 1887
KIL 8187	Conditions of Re-Grant No. UB7031	150 years	25 December 1887
KIL 8519	Conditions of Re-Grant No. UB7912	150 years	25 December 1887
KIL 7154	Conditions of Re-Grant No. UB6969	150 years	25 December 1887
KIL 9910	Conditions of Sale No. UB10085	75 years	25 December 1962
KIL 7156	Conditions of Re-Grant No. UB5892	150 years	25 December 1887

- According to the Approved Tsim Sha Tsui Outline Zoning Plan No. S/K1/28 dated 13 December 2013, the site of the property is zoned as Residential (Group A).



## APPENDIX III

## PROPERTY VALUATION REPORT

4. The registered owners of the property are as follows:

Property	Registered owner	Memorial No.	Date of instrument	Consideration
Shop 3	Ng Choi Wah	10031902940103	3 March 2010	HKD2,250,000
Shop 11	Strong Knight Limited	13062402390019	13 June 2013	HKD3,920,000
Shop 12	Strong Knight Limited	13062402390027	13 June 2013	HKD2,480,000

5. Pursuant to the land search record, the property is subject to, inter alia, the following encumbrances:

- a. Occupation Permit No. K40/94 vide Memorial No. UB6126540 dated 23 September 1994.
- b. Certificate of Compliance vide Memorial No. UB6194549 dated 23 December 1994.
- c. Deed of Mutual Covenant and Management Agreement vide Memorial No. UB6205644 dated 3 January 1995.
- d. Mortgage to secure all moneys in respect of general banking facilities in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 12081302270261 (Re.: Shop 3) dated 30 July 2012.
- e. Rent Assignment in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 12081302270275 (Re.: Shop 3) dated 30 July 2012.
- f. Mortgage in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial Nos. 14021802220128 (Re.: Shop 11) and 14021802220145 (Re.: Shop 12) dated 11 February 2014.
- g. Rental Assignment in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial Nos. 14021802220132 (Re.: Shop 11) and 14021802220155 (Re.: Shop 12) dated 11 February 2014.

6. Upon inspection, we noted that the Shops 2, 3, 4 and 5 had been repartitioned as a combined unit and a portion of common corridor (please refer to Note 7) was occupied by the Group, and Shops 11 and 12 had been repartitioned as a combined unit. In our valuation, we have assumed that the property is in its original layout and free from alteration and addition works and unauthorized structure.
7. In accordance with the Deed of Mutual Covenant, the right to the exclusive use of the occupied portion of common corridor, as mentioned in Note 6, shall be reserved to the owner who owns all the units of Units 2, 3 and 4 on 2nd floor and that occupied portion shall cease to be building common area.
8. As at the valuation date, the property has not been assigned to the Group and thus the title of the property has not been vested in the Group. Therefore we have attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the market value of the property as at the valuation date would be HKD14,500,000, on condition the Group is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.

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**PROPERTY VALUATION REPORT**

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31 October 2015 HKD</b>
4.	Workshop 6 on 8th Floor, Ho Lik Centre, No. 66A Sha Tsui Road, New Territories  46/8470 parts or shares of and in Sub-Section 1 of Section A and the Remaining Portion of Section B of Tsun Wan Inland Lot No. 27	The property comprises a unit on the 8th floor of a 22-storey industrial building completed in 1994.  The unit has a gross area of approximately 65.77 sq.m. (or 708 sq.ft.) or a saleable area of approximately 46.54 sq.m. (or 501 sq.ft.)  The property is held under Conditions of Sale No. UB5087 for a term of 75 years renewable for 24 years commencing from 1 July 1898 and statutorily renewed until 30 June 2047 at nil premium but subject to a payment of an annual Government Rent of 3% of the rateable value for the time being of the lot.	The property is currently occupied by the Group for storage purpose.	No commercial value

*Notes:*

1. The property is situated on the south-west side of Sha Tsui Road close to the junction with Tai Chung Road. The general area is characterized by high-rise industrial buildings.
2. The registered owner of the property is Strong Knight Limited vide Memorial No. 11011702490037 dated 30 December 2010 for a consideration of HKD1,000,000.
3. According to the Approved Tsuen Wan Outline Zoning Plan No. S/TW/31 dated 17 January 2014, the site of the property is zoned as Industrial.
4. Pursuant to the land search record, the property is subject to, inter alia, the following encumbrances:
  - a. Deed of Mutual Covenant vide Memorial No. UB6069862 dated 23 June 1994.
  - b. Occupation Permit No. 72/94 vide Memorial No. UB6132735 dated 8 June 1994.
  - c. Mortgage to secure all moneys in respect of general banking facilities in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 12081302270321 dated 30 July 2012.
  - d. Rent Assignment in favour of the Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 12081302270331 dated 30 July 2012.
5. As at the valuation date, the property has not been assigned to the Group and thus the title of the property has not been vested in the Group. Therefore we have attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the market value of the property as at the valuation date would be HKD2,640,000, on condition the Group is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.

**APPENDIX IV**

**SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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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 16 November 2015 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

**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 adopted on [●]. The following is a summary of certain provisions of the Articles:

**(a) Directors**

*(i) 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 with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are 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 from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

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Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

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.

*(iii) 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.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Financial assistance to purchase shares of the Company or its subsidiaries*

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company. There is no provision in the Articles that prohibits the Company from giving financial assistance for the purchase shares of its subsidiaries.

*(vi) 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, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other 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. Subject as otherwise provided by the Articles, 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.

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Subject to the Companies Law and the Articles, 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 shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall 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.

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*(vii) Remuneration*

The ordinary remuneration of the Directors shall from time to time 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 shall also be 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 (whether by way of salary, commission, participation in profits or otherwise) 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 (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) 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.

*(viii) Retirement, appointment 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

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Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time 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. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

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 the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. 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:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; or
- (ff) if 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 from time to time 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 shall, 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.

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*(ix) 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 (present and future) 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.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

*(x) 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.

*(xi) Register of Directors and Officers*

The Companies Law and the Articles provide that 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 thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

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.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may



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have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The 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.

**(e) Special resolution-majority required**

Pursuant to the Articles, 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 (see paragraph 2(i) below for further details).

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 held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, 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

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but so that no amount paid up or credited as paid up on a share in advance of calls or installments 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 authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), 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.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of 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 any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall 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 shall make available at its registered office in electronic

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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 (2009 Revision) 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 Designated Stock Exchange (as defined in the Articles), 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.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. 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. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

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 (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall 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 the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

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All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) 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 Designated Stock Exchange (as defined in the Articles) 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 in any case in which it thinks fit, in its discretion, to do so and 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 thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to 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.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

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The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, 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 a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for 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 any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the

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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.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

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**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, 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 installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments 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.

**(p) Inspection of register of members**

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 Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) 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.

Save as otherwise provided by the Articles 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

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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.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the 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 law, as summarised in paragraph 3(f) of this Appendix.

**(s) 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 shall be 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 shall be 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 shall be 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.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the



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Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) 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 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) 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 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.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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**

Subject to the provisions of the Companies Law, 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 shall 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 shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury

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shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall 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. Further, 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.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is 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. In addition, section 34 of 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 (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands 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.

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Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

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 shall 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.

**(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 [(1999 Revision)]/[(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 [●].

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 certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

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**(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 will 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.

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 shall 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 (2009 Revision) of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business 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, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby 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

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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. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and 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. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) 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.

**(p) Compulsory acquisition**

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.

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**(q) 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 VI to this document. 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.

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### A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

#### 1. Incorporation or our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 16 November 2015. Our Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and has established our principal place of business in Hong Kong at Room 203–204, 2nd Floor, Hang Bong Commercial Centre, 28 Shanghai Street, Jordon, Kowloon, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 16 December 2015, with Mr. Ng appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to the Companies Laws. Its constitution comprises the Memorandum of Association and Articles of Association. A summary of various provisions of the Memorandum of Association and Articles of Association and relevant aspects of the Companies Laws is set out in Appendix IV to this document.

#### 2. Changes in share capital of our Company

- (a) Our Company was incorporated in the Cayman Islands on 16 November 2015 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (b) On 16 November 2015, one nil-paid Share was allotted and issued to the subscriber, which was transferred to Mr. Ng on the same date.
- (c) On 15 December 2015, our Company acquired the entire issued share capital of Ching Lee Group from Mr. Ng, in consideration of which our Company credited as fully paid the one nil-paid subscriber Share held by Mr. Ng and allotted and issued 99 fully paid up new Shares to Mr. Ng.
- (d) On 15 December 2015, JT Glory acquired the entire issued share capital of our Company from Mr. Ng, in consideration of which JT Glory allotted and issued 98 fully paid up new Shares to Mr. Ng.
- (e) Pursuant to the written resolutions of the sole Shareholder passed on [●] 2016, the authorised share capital of our Company was increased from HK\$380,000 to HK\$[100,000,000] by the creation of a further [9,962,000,000] Shares.
- (f) A total of [REDACTED] new Shares will be offered to the public by way of [REDACTED].
- (g) Conditional on the share premium account of our Company being credited with the proceeds from the [REDACTED], HK\$[REDACTED] will be capitalised from the share premium account and applied in paying up in full [REDACTED] Shares which will be allotted and issued to JT Glory on or before the [REDACTED].
- (h) Immediately following the [REDACTED] and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$[REDACTED] divided into [REDACTED] Shares fully paid or credited as fully paid and [REDACTED] Shares will remain unissued. Other than pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to



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issue any part of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

- (i) Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

**3. Written resolutions of the sole Shareholder passed on [●] 2016**

Pursuant to the written resolutions of the sole Shareholder passed on [●] 2016:

- (a) the authorised share capital of our Company was increased from HK\$380,000 to HK\$[100,000,000] by the creation of a further [9,962,000,000] Shares;
- (b) conditional on the conditions as set out in the section headed "Structure and conditions of the [REDACTED]" of this document:
  - (i) the [REDACTED] was approved and our Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED]; and
  - (ii) conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise an amount of HK\$[REDACTED] standing to the credit of the share premium account of our Company applying such sum in paying up in full at par [REDACTED] Shares to be allotted and issued to JT Glory.
  - (iii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;
  - (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to, or in consequence of a rights issues or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of our subsidiaries of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares of our Company in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of our Company or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not (1) exceeding 20% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares falling to be issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme); and (2) the aggregate nominal value of shares repurchased under the Repurchase Mandate as defined in paragraph (v) below. Such mandate shall remain in effect until whichever is the earliest of:
    - (1) the conclusion of the next annual general meeting of our Company;

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- (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable laws of Cayman Islands; or
  - (3) the passing of an ordinary resolution of the shareholders of our Company in a general meeting revoking, varying or renewing such mandate;
- (v) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), such mandate shall remain in effect until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company;
  - (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable law of Cayman Islands; or
  - (3) the passing of an ordinary resolution of the shareholders of our Company in a general meeting revoking, varying or renewing such mandate; and
- (vi) subject to the availability of authorised but unissued share capital and conditional upon paragraphs (iv) and (v) above, the aggregate nominal value of Shares which are purchased or repurchased by our Company pursuant to and in accordance with paragraph (v) above shall be added to the aggregate nominal value of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to and in accordance with paragraph (iv) above provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the [REDACTED];
- (c) the amended and restated Memorandum of Association and Articles of Association of our Company were conditionally approved and adopted to take effect on [REDACTED].

#### 4. Corporate reorganisation

The companies comprising our Group underwent a Reorganisation in preparation for the [REDACTED]. Following the Reorganisation, our Company became the holding company of our Group.

A diagram showing our Group structure after the Reorganisation and immediately upon completion of the Capitalisation Issue and the [REDACTED] (assuming that no Share has been allotted and issued pursuant to the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme) is set out in the paragraph headed "Shareholding structure immediately after the completion of the Capitalisation Issue and [REDACTED]" in the section headed "History, Reorganisation and Group structure" of this document. For details of the Reorganisation, please refer to the section headed "History, Reorganisation and group structure" of this document.

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### 5. Changes in share capital of subsidiaries of our Company

Our subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this document. Save for the subsidiaries mentioned in Appendix I to this document, our Company has no other subsidiaries.

Save as disclosed in the paragraphs headed "Reorganisation" in the section headed "History, Reorganisation and group structure" of this document, no alterations in the share capital of any of our subsidiaries have taken place within two years immediately preceding the date of this document.

### 6. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

#### (a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies with a primary [REDACTED] on the Stock Exchange to repurchase their own 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 listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the resolutions in writing of the sole Shareholder passed on [●] 2016, a general mandate was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or 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, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED]. The general mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the articles of association of our Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing the authority given to our Directors, whichever occurs first.

##### (ii) Source of funds

Any repurchases must be financed out of funds legally available for such purpose in accordance with the Articles of Association and any applicable laws of the Cayman Islands.

##### (iii) Trading restrictions

A company is authorised to repurchase on the GEM or on any other stock exchange recognised by the SFC in Hong Kong and the Stock Exchange up to a maximum of 10% of the aggregate nominal value of the existing issued share capital 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 GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were

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outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on the GEM 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 GEM 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 GEM.

### *(iv) Status of repurchased securities*

The [REDACTED] of all repurchased securities (whether on the GEM or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

### *(v) 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 GEM Listing Rules) for the approval of our Company's results for any year, half year, quarter-year period or any other interim period (whether or not required by the GEM Listing Rules); and (2) the deadline for our Company to publish an announcement of its results for any year, or half-year or quarter-year period under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and in each case ending on the date of the results announcement, our Company may not purchase its securities on the GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the GEM if our Company has breached the GEM Listing Rules.

### *(vi) Reporting requirements*

Repurchases of securities on the GEM or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares, reporting total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the GEM 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. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

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### *(vii) Core connected persons*

Under the GEM Listing Rules, a company shall not knowingly repurchase shares on the Stock Exchange from a core connected person (as defined in the GEM Listing Rules) and a core connected person shall not knowingly sell his shares to the company.

### *(b) Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after [REDACTED], could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force. On the basis of the current financial position of our Group as disclosed in this document 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, there might be a material adverse impact on the working capital and/or gearing position of our Group (as compared with the position disclosed in this document). 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.

### *(c) Reasons for repurchases*

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority from the Shareholders to enable our Company to execute repurchases of the Shares in the market. Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

### *(d) Funding of repurchases*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws and regulations of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the GEM 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.

Under the Cayman Islands law, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of share made for the purpose of the repurchase or, if authorised by the articles of association of our Company and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium accounts of our Company, or if authorised by the Articles of Association of our Company and subject to the Companies Law, out of capital.

### *(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 GEM Listing Rules), have any present intention, if the Repurchase Mandate is exercise, to sell any Shares to our Company or our subsidiaries.

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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 GEM Listing Rules, the Articles of Association of our Company and the applicable laws of the Cayman Islands.

No core connected person (as defined in the GEM Listing Rules) of our Company has notified our Company of intention to sell Shares to our Company, or such persons have undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, 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. As a result, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of our Company and become(s) 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 consequence which would arise under the Takeovers Code due to any repurchase of Shares made pursuant to the Repurchase Mandate immediately after the [REDACTED].

### B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

#### 1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this document and are or may be material to the business of our Group:

- (a) an instrument of transfer and bought and sold notes all dated 8 December 2015 entered into between Mr. Ng and Ching Lee Group for the transfer of 3,700,000 shares in Ching Lee Engineering from Mr. Ng to Ching Lee Group in consideration of the allotment and issue of 100 credited and fully paid new shares of Ching Lee Group registered in the name of Mr. Ng;
- (b) an instrument of transfer and bought and sold notes all dated 8 December 2015 entered into between Mr. Ng and Ching Lee Group for the transfer of 1,000 shares in Ching Lee Foundation from Mr. Ng to Ching Lee Group in consideration of the allotment and issue of 100 credited and fully paid new shares of Ching Lee Group registered in the name of Mr. Ng;
- (c) an instrument of transfer and bought and sold notes all dated 8 December 2015 entered into between Mr. Ng and Ching Lee Group for the transfer of one share in Right Lucky from Mr. Ng to Ching Lee Group in consideration of the allotment and issue of 100 credited and fully paid new shares of Ching Lee Group registered in the name of Mr. Ng;
- (d) an instrument of transfer and bought and sold notes all dated 15 December 2015 entered into between Mr. Ng and Ching Lee Group for the transfer of 10,000 shares in Ching Lee Construction from Mr. Ng to Ching Lee Group in consideration of the allotment and issue of 100 credited and fully paid new shares of Ching Lee Group registered in the name of Mr. Ng;
- (e) an instrument of transfer and bought and sold notes all dated 15 December 2015 entered into between Mr. Ng and the Company for the transfer of 500 shares in Ching Lee Group from Mr. Ng to the Company in consideration of (i) the allotment and issue of 99 fully paid up new Shares of the Company to Mr. Ng, all of which shall rank pari passu with the share in issue and (ii) the crediting as fully paid at par one nil-paid Share of the Company registered in the name of Mr. Ng;

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- (f) the Deed of Indemnity;
- (g) the Deed of Non-Competition; and
- (h) the [REDACTED].



**2. Intellectual property rights**

**(a) Trademarks**

As at the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Place of registration	Application number	Name of registered proprietor	Class	Date of registration	Expiry date
A  正利工程有限公司 CHING LEE ENGINEERING LIMITED	Hong Kong	303019950	Ching Lee Engineering	37, 42	5 June 2014	4 June 2024
B  正利工程有限公司 CHING LEE ENGINEERING LIMITED						

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Place of application	Application number	Name of applicant	Class	Date of application
A  正利控股有限公司 CHING LEE HOLDINGS LIMITED	Hong Kong	303617163	The Company	37, 42	3 December 2015
B  正利控股有限公司 CHING LEE HOLDINGS LIMITED					

**(b) Domain name**

As at the Latest Practicable Date, our Group had registered the following domain names which, in the opinion of our Directors, are material to our business:

Domain name	Registrant organisation	Registration date	Expiry date
chingleegroup.com	Ching Lee Engineering	24 November 2015	24 November 2016
chingleeeng.com	Ching Lee Engineering	24 November 2015	24 November 2016
chingleeholdings.com	Ching Lee Engineering	24 November 2015	24 November 2016
chinglee.hk	Ching Lee Engineering	22 January 2008	22 January 2017

Save as aforesaid, there are no other trade or service marks, patents, copyright, other intellectual or industrial property rights which, in the opinion of our Directors, are material to our Group’s business.

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**C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

**1. Directors**

*(a) Disclosure of interests of Directors*

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme), the interests or short positions of our Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 and 5.67 of the GEM Listing Rules, will be as follows:

*Long position*

Name of Directors	Company/name of associated company	Nature of interest	Number and class of securities	Approximate percentage of issued share capital
Mr. Ng	The Company	Interest in a controlled corporation	[REDACTED] <i>(Note)</i>	[REDACTED]%
	JT Glory	Beneficial interest	[REDACTED]	[REDACTED]%

*Note:* The Shares are registered in the name of JT Glory, the entire issued share capital of which is legally and beneficially owned by Mr. Ng. Under the SFO, Mr. Ng is deemed to be interested in all the Shares held by JT Glory.

*(b) Particulars of service contracts and letters of appointment*

Each of Mr. Ng, Mr. Lui and Mr. Lam, being all the executive Directors, [has entered] into a service contract with our Company for an initial fixed term of [three years] commencing from the [REDACTED], unless terminated by not less than [three months' notice] in writing served by either party on the other, and the executive Directors are subject to retirement at the annual general meeting of our Company at least once every three years pursuant to the Articles of Association and the GEM Listing Rules. Commencing from the [REDACTED], each of our executive Directors is entitled to an initial annual salary set out below, such salary to be reviewed annually by our Board and the remuneration committee of our Company. In addition, each of our executive Directors is entitled to such discretionary bonus as our Board and the remuneration committee of our Company may approve, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board approving the amount of annual salary, management bonus and other benefits payable to him. According to the terms of the service



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contracts entered into between our Company and the executive Directors, the current basic annual remuneration (excluding contribution to pension scheme, discretionary bonus and commission) of each of our executive Directors are as follows:

<b>Name</b>	<b>Salaries and allowances (HK\$)</b>	<b>Retirement scheme contributions (HK\$)</b>
Mr. Ng	[1.6] million	[0.07] million
Mr. Lui	[1.6] million	[0.07] million
Mr. Lam	[1.6] million	[0.07] million

Each of Dr. Wai Wing Hong Onyx, Mr. Tong Hin Sum Paul and Mr. Chau Kam Wing Donald, being all our independent non-executive Directors, has entered into a letter of appointment with our Company on [●]. Each letter of appointment is for an initial term commencing on the date of the letter of appointment and shall continue thereafter subject to a maximum of [three years] unless terminated by either party giving at least [one month's notice in writing]. Commencing from the [REDACTED], each independent non-executive Director is entitled to an annual director's fee of HK\$[0.54] million.

Save as disclosed above, none of our Directors has or is proposed to enter into a service contract/letter of appointment with our Company or any of our subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

**(c) Directors' remuneration**

Our Company's policies concerning remuneration of executive Directors are:

- (i) the amount of remuneration payable to our executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to our Group by the relevant Director;
- (ii) non-cash benefits may be provided to our Directors under their remuneration package; and
- (iii) our executive Directors may be granted, at the discretion of the Board, share options of our Company, as part of the remuneration package.

An aggregate sum of approximately HK\$2,411,000, HK\$3,753,000 and HK\$1,757,000 was paid to our Directors as remuneration (including fees, salaries, allowances and other benefits, discretionary bonuses and contributions to pension scheme) by our Group for the two years ended 31 March 2015 and six months ended 30 September 2015 respectively. Further information in respect of our Directors' remuneration is set out in note 12(a) of the Accountants' Report set out in Appendix I to this document.

An aggregate sum of approximately HK\$[5.0] million will be paid to our Directors as remuneration and benefits in kind (excluding any discretionary bonus) by our Group for the year ending 31 March 2016 and the six months ended 30 September 2016 under the arrangements in force at the date of this document.

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An aggregate sum of approximately HK\$4,566,000, HK\$5,966,000 and HK\$2,561,000 was paid to our five highest paid individuals as remuneration (including salaries, allowances and other benefits and contribution to pension scheme) by our Group for the two years ended 31 March 2015 and six months ended 30 September 2015. Further information is set out in note 12(b) of the Accountants' Report set out in Appendix I to this document.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors or former Directors or the five highest paid individuals for each of the years during the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

There had been no arrangement under which a Director had waived or agreed to waive any emoluments in each of the two years ended 31 March 2015 and six months ended 30 September 2015.

Save as disclosed above, no other payments have been made or are payable in respect of each of the two years ended 31 March 2015 and six months ended 30 September 2015 by any member of our Group to any of our Directors.

**(d) Disclosure of interests of our Directors in dealings with our Group**

Save for the service contracts and letters of appointment entered between our Directors and our Company, none of our Directors or their respective close associates engaged in any dealing with our Group during the Track Record Period.

**2. Substantial Shareholders**

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the [REDACTED] without taking into account of any Shares which may be allotted and issued upon the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme, the following persons/entities (other than our Directors and chief executives 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 nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Percentage of shareholding</b>
JT Glory	Beneficial owner	[REDACTED] <i>(Note 1)</i>	[REDACTED]%
Ms. Cheung Yuk Sheung	Interest of spouse	[REDACTED] <i>(Note 2)</i>	[REDACTED]%

*Notes:*

- JT Glory is wholly-owned by Mr. Ng. Under the SFO, Mr. Ng is deemed to be interested in all the Shares held by JT Glory.
- Mr. Cheung Yuk Sheung is the spouse of Mr. Ng. Under the SFO, Ms. Cheung is deemed to be interested in all the Shares held by Mr. Ng.

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### 3. Agency fees or commissions received

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years and six months preceding the date of this document.

### 4. Related party transactions

Our Group entered into the related party transactions within the two years and six months immediately preceding the date of this document as mentioned in note 27 of the Accountants' Report set out in Appendix I to this document.

### 5. Disclaimers

Save as disclosed in this document:

- (a) taking no account of any Shares which may be taken up or acquired under the [REDACTED] or any Shares which may be allotted and issued upon the exercise of the [REDACTED] or any options which have been or 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 [REDACTED] will have an interest or short position in the Shares or 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 (including interests and/or short positions which they are deemed to have under such provisions of the SFO) or who will, either directly or indirectly, be expected to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;
- (b) none of our Directors and chief executives of our Company has for the purposes of Divisions 7 and 8 of Part XV of the SFO or the GEM 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 the 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 to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules once the Shares are listed on the Stock Exchange;
- (c) none of our Directors nor the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (e) none of the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors, their respective close associates (as defined under the GEM Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company had any interests in the five largest customers or the vendor of our Group;

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- (g) none of our Directors nor any of the persons whose names are listed in the section headed "Qualifications of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which was significant in relation to the business of our Group; and
- (h) none of our Directors nor any of the persons whose names are listed in the section headed "Qualifications of experts" in this Appendix has received any agency fee, commissions, discounts, brokerage or other special terms from our Group within the two years immediately preceding the date of this document in connection with the issue or sale of any capital of any member of our Group.

### D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the resolutions in writing of the sole Shareholder on [●].

For the purpose of this section, unless the context otherwise requires:

- "Board" means our board of Directors from time to time or a duly authorised committee thereof;
- "Eligible Person" means any full-time or part-time employee of our Company or any member of our Group, including any executive, non-executive director and independent non-executive director, advisor, consultant of our Company or any our subsidiaries;
- "Offer Date" means the date on which an Option is offered to an Eligible Person;
- "Option" means an option to subscribe for Shares granted pursuant to the Share Option Scheme;
- "Option Period" means in respect of any particular Option, the period to be determined and notified by our Board to each Participant;
- "Other Schemes" means any other share option schemes adopted by our Group from time to time pursuant to which options to subscribe for Shares may be granted;
- "Participant" means any Eligible Person who accepts or is deemed to have accepted the offer 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 Participant;
- "Shareholders" means shareholders of our Company from time to time;
- "Subsidiary" means a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance) of our Company, whether incorporated in Hong Kong or elsewhere; and
- "Trading Day" means a day on which trading of Shares take place on the Stock Exchange.

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### **(a) Purpose of the Share Option Scheme**

The Share Option Scheme enables our Company to grant Options to the Eligible Persons as incentives or rewards for their contributions to our Group.

### **(b) Who may join**

Our Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (d) below. Upon acceptance of the Option, the Eligible Person 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 28 days from the date on which the Option is granted.

### **(c) Grant of Option**

Our Company may not grant any Option after inside information has come to our knowledge until such inside information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarter-year period or any interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of results announcement. Our Board may not grant any Option to an Eligible Person who is a Director during the periods or times in which directors of the listed issuer are prohibited from dealing in shares pursuant to Rules 5.48 to 5.67 prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

### **(d) maximum number of options to any one individual**

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if approved by Shareholders in general meeting with such Participant and his associates abstaining from voting, our Company may make a further grant of Options to such Participant (the "Further Grant") notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time.

In relation to the Further Grant, our Company must send a circular to the Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant under the Share Option Scheme and other schemes) and the information required under the GEM Listing Rules. The number and terms (including the exercise price) of options which is the subject of the Further Grant shall be fixed before the relevant Shareholders' meeting and the date of meeting of the Board for proposing the Further Grant should be taken as the Offer Date for the purpose of calculating the relevant subscription price. The Further Grant shall be subject to the approval of the Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Participant and his close associates (as defined in the GEM Listing Rules)

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abstaining from voting. The number and the terms of the Options to be granted (and options previously granted to such Participant under the Share Option Scheme and other schemes) and the information required under the GEM Listing Rules.

### *(e) Price of Shares*

The subscription price for the Shares subject to Options will be a price determined by our Board and notified to each Participant and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the Options, 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 grant of the Options; and (iii) the nominal value of a Share. For the purpose of calculating the subscription price, in the event that on the date of grant, our Company has been listed for less than five Trading Days, the [REDACTED] shall be used as the closing price for any Trading Day falling within the period before the [REDACTED].

### *(f) Maximum number of Shares*

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the [REDACTED] (the "Scheme Mandate Limit") provided that Option lapsed in accordance with the terms of the Shares Option Scheme or Other Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of [REDACTED] Shares in issue on the [REDACTED], the Scheme Mandate Limit will be equivalent to [REDACTED] Shares, representing 10% of the Shares in issue as at the [REDACTED].
- (ii) Subject to the approval of Shareholders in general meeting, our Company may renew the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of such Shareholders' approval provided that Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. In relation to the Shareholders' approval referred to in this paragraph (ii), our Company shall send a circular to the Shareholders containing the information required by the GEM Listing Rules.
- (iii) Subject to the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by our Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), our Company shall send a circular to its Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the GEM Listing Rules.
- (iv) Notwithstanding the foregoing, our Company may not grant any Options if the 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 Other Schemes exceeds 30% of the Shares in issue from time to time.

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***(g) Time of exercise of Option and performance target***

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Board to each Participant provided that the period within which the Option must be exercised shall not be more than 10 years from the date of the grant of Option. The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by our Board to each Participant, which our Board may in its absolute discretion determine.

***(h) Rights are personal to grantee***

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

***(i) Rights on death, retirement and cessation of employment***

If a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options in full (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death, failing which such Options will lapse.

In the event that a Participant retires in accordance with his contract of employment or upon expiration of his or her contract of employment or term of directorship before exercising his or her options in full, the Participant may exercise the options (to the extent not already exercised) within a period of three months after he so retires or expiration of his contract of employment or term of directorship, failing which such Options will lapse.

***(j) Changes in capital structure***

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the Options so far as unexercised, and/or the exercise price, and/or the method of the Options, and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must give a Participant the same proportion of the equity capital as that to which that Participant was previously entitled and shall be made on the basis that the aggregate exercise price payable by a Participant on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value and, unless with the prior approval of the Shareholders in general meeting, no such adjustments may be made to the advantage of the Participant. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of our Company or the auditors of our Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

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### ***(k) Rights on take-over***

If a general offer has been made to all the Shareholders (other than the offeror and/or any persons acting in concert with the offeror), to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Participant shall be entitled to exercise his or her outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, "acting in concert" shall have the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong as amended from time to time.

### ***(l) Rights on a compromise or arrangement***

If an application is made to the court (otherwise than where our Company is being voluntarily wound up), pursuant to the Companies Law or the Companies Ordinance, in connection with a proposed compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them), a Participant may by notice in writing to our Company, within a period of 21 days after the date of such application, exercise his or her outstanding Option in full or any part thereof specified in such note. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by our Company to all Participants as soon as practicable.

### ***(m) Rights on winding-up***

In the event of a notice being given by our Company to our Shareholders to convene a general meeting for the purpose of approving a resolution to voluntarily wind up our Company when our Company is solvent, our Company shall on the day of such notice to each Shareholder or as soon as practicable, give notice thereof to all Participants. Thereupon each Participant shall be entitled to exercise all or any of his or her outstanding Options at any time no later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Participant credited as fully paid.

### ***(n) Lapse of Option***

An Option shall lapse forthwith and not exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the Option as may be determined by the Board;
- (ii) subject to paragraphs (f) and (p), the expiry of the Option Period of the Option;
- (iii) the first anniversary of the death of the Participant;
- (iv) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the date on which such member of our Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any



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criminal offence involving his or her integrity or honesty. A resolution of our Board or the board of directors of the relevant member of our Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive;

- (v) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the expiry of a period of three months from the date of the Participant ceasing to be an employee or director of such member of our Group by reason of:
  - (1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this sub-paragraph, at a younger age;
  - (2) ill health or disability recognised as such expressly by our Board in writing for the purpose of this sub-paragraph;
  - (3) the company by which he or she is employed and/or of which he or she is a director (if not our Company) ceasing to be a subsidiary of our Company;
  - (4) expiry of his or her employment contract or vacation of his or her office with such member of our Group such contract or office is not immediately extended or renewed; or
  - (5) at the discretion of our Board, any reason other than death or the reasons described in sub-paragraph (iv) or (v) (1) to (4);
- (vi) the expiry of any period referred to in paragraph (k) above, provided that in the case of paragraph (k)(i), all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and
- (vii) the date the Participant commits any breach of the provisions of paragraph (g).

### **(o) *Ranking of Shares***

Shares allotted and issued upon the exercise of an Option will be subject to our Company's articles of association as amended from time to time and will rank *pari passu* in all respects with the fully paid or credited as fully paid Shares in issue on the date of such allotment or issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date, of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment or issue.

### **(p) *Cancellation of Options granted***

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the grantee concerned in writing. In the event that our Board elects to cancel any Options and issue new ones to the same grantee, the issue of such new Options may only be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

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### *(q) Period of Share Option Scheme*

The Share Option Scheme will be valid and effective for a period of ten years commencing on the [REDACTED], 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 and Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

### *(r) Alteration to and termination of Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of our Board, except that (i) any alteration to the advantage of the Participants or the Eligible Persons (as the case may be) relating to matters contained in Chapter 23 of the GEM Listing Rules; and (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of Options granted, except where the alterations take effect automatically under the existing terms of the Share Option Scheme, shall first be approved by the Shareholders in general meeting (with the Eligible Persons, the Participants and their Associates abstaining from voting) provided that if the proposed alternatively shall adversely affect any Options granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the consent or sanction of the Participants in accordance with the terms of the Share Option Scheme.

Any alterations to the terms and conditions of Share Option Scheme, which are of a material nature shall first be approved by the Stock Exchange, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event no Further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the first new scheme to be established after such termination.

### *(s) Granting of Options to a director, chief executive or substantial shareholder of our Company or any of their associates*

Where Options are proposed to be granted to a director, chief executive or substantial shareholder of our Company or any of their respective associates, the proposed grant must be approved by all 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 any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Share Option Scheme or Other Schemes in any 12-month period up to and including the date of the grant (i) representing in aggregate 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK\$5 million, then the proposed grant of Options must be approved by the Shareholders. All connected persons of our

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Company must abstain from voting at such general meeting, except that any connected person may vote against the resolution provided that his or her intention to do so has been stated in the circular. The circular must contain the information required under the GEM Listing Rules.

In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to an Eligible Person who is a substantial Shareholder, an independent non-executive Director or their respective associates.

The circular must contain the following:

- (i) details of the number and terms of the Options (including the subscription price relating thereto) to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the subscription price;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the Options in question) to independent Shareholders, as to voting; and
- (iii) all other information as required by the GEM Listing Rules.

For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive (as defined in the GEM Listing Rules) set out in this paragraph (r) do not apply where the Eligible Person is only a proposed Director or chief executive.

### ***(t) Conditions of Share Option Scheme***

The Share Option Scheme is conditional on (i) the passing of a resolution to adopt the Share Option Scheme by the Shareholders in general meeting; and (ii) the Stock Exchange granting approval for the [REDACTED] of and permission to deal in the Shares which may be issued pursuant to the exercise of Options.

Application has been made to the Stock Exchange for the [REDACTED] of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under Share Option Scheme.

### ***(u) Administration of the Share Option Scheme***

The Share Option Scheme will be administered by our Board whose decision (save as otherwise provided therein) shall be final and binding on all parties.

### ***(v) Present status of the Share Option Scheme***

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

### ***(w) Disclosure in annual and interim reports***

Our Company will disclose all information in relation to the Share Option Scheme in its annual and interim reports pursuant to Rule 23.07 of the GEM Listing Rules.

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### E. OTHER INFORMATION

#### 1. Tax and other indemnities

Each of the Controlling Shareholders (collectively, the "**Indemnifiers**") has entered into a Deed of Indemnity with and in favour of our Company (for itself and as trustee for each member of our Group) (being a contract referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" of this Appendix V to this document, to provide indemnities on a joint and several basis in respect of, amongst other things:

- (a) taxation falling on any member of our Group resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued, received or made (or deemed to be so granted, earned, accrued, received or made) on or before the date on which the **[REDACTED]** becomes unconditional and dealings in shares of our Company first commence on the Stock Exchange (the "**Effective Date**") or any transactions, matters, things, event, act or omission occurring or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstance whenever occurring, and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and
- (b) all costs (including all legal costs), expenses, interests, penalties, fines, charges or other liabilities which any member of our Group may properly incur in connection with:
  - (i) the investigation, assessment, the contesting of any claim under (a) above;
  - (ii) the settlement of any claim under (a) above;
  - (iii) any legal proceedings in which any member of our Group claims under or in respect of (a) above, and in which judgment is given for any member of our Group; or
  - (iv) the enforcement of any such settlement or judgments.

The Indemnifiers have also, under the Deed of Indemnity, agreed and undertaken to each of the members of our Group and at all times keep the same indemnified on demand from and against any losses, damages, claims or penalties that our Group may suffer or incur, as a result of our Group's non-compliance matters, as more particularly set out in the section headed "Business — Legal proceedings and legal compliance" in this document (the "**Compliance Matters**"), as such matters subsist prior to the Effective Date.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for taxation, among other:

- (a) to the extent that provision has been made for such taxation in the audited consolidated accounts of our Group or the audited accounts of any member of our Group for an accounting period ended on or before 30 September 2015;
- (b) falling on any member of our Group as a result of any transaction entered into by any member of our Group on or after the Effective Date in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets;
- (c) to the extent that such taxation arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by the Inland Revenue Department or any other statutory or governmental authority in any part of the world having retrospective effect coming into force after the Effective Date or to the extent that such

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taxation arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of any part of the world on the profits of companies for the current or any earlier financial period);

- (d) to the extent that such taxation is discharged 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
- (e) to the extent of any provision or reserve made for taxation in the audited accounts referred to in sub-paragraph (a) above which is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the liability of the Indemnifiers or any of them in respect of taxation shall not be available in respect of any such liability arising thereafter.

Pursuant to the Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006 in Hong Kong, estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after 11 February 2006.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands or the BVI, being jurisdictions in which one or more of the companies comprising our Group were incorporated. There are currently no taxes in the form of estate duties under Cayman Islands law, and no estate tax is currently payable by persons who are not resident in the BVI with respect of any shares, debt obligations or other securities of a BVI company.

### **2. Register of members and taxation concerning the Shareholders**

The principal register of members of our Company in the Cayman Islands will be maintained by [REDACTED], and a branch register of members of our Company in Hong Kong will be maintained by [REDACTED]. Save when our Directors otherwise agree, all transfers and other documents of title to 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. All necessary arrangements have been made to enable the Shares to be admitted into CCASS as eligible securities.

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to stamp duty. The current rate charged on each of the purchase and seller is 0.1% of the consideration of, if higher, of fair value of our Shares being sold or transferred. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to the profits tax in Hong Kong. Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of shares of companies incorporated in the Cayman Islands, except those companies which hold interests in land in the Cayman Islands. No stamp duties or similar documentary taxes imposed by or in the British Virgin Islands are payable by our Company and our Company will not be required by any laws of the British Virgin Islands to make any deduction or withholding from any payment it may make. Notwithstanding any provision of the Income Tax Ordinance of the British Virgin Islands, (a) our Company; (b) all dividends, interest, rents, royalties, compensations and other amounts paid by our Company; and (c) capital gains realised with respect to any shares, debt obligations or other securities of our Company, are exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. The British Virgin Islands currently levies no estate, inheritance, succession or gift tax with respect to any shares, debt obligations or other securities of our Company.

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Intending 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. None of our Company, our Directors or parties involved in the [REDACTED] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal or dealing in Shares.

### 3. Litigation

Save as disclosed in the paragraph headed “Business — Legal Proceedings and Legal Compliance — Legal compliance” in this document, as of the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or claims or arbitration of material importance and no litigation or claims of material importance is known to our Directors to be pending or threatened against our Company or any of our subsidiaries.

### 4. Sponsor and Sponsor’s fees

The Sponsor has made an application for and on behalf of our Company to the [REDACTED] Division of the Stock Exchange for the [REDACTED] of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this document, including the [REDACTED] and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue and the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme.

Our Company agreed to pay the Sponsor a fee of [REDACTED] as the sponsor to our Company for the [REDACTED]. Such sponsor’s fee relates solely to services provided by the Sponsor in the capacity of a sponsor, and not other services which it may provide, such as, but without limitation, book building, pricing and underwriting.

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

### 5. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company will appoint Kingsway Capital Limited as its compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full year commencing after the [REDACTED] or until the agreement is terminated, whichever is the earlier.

### 6. Preliminary expenses

The preliminary expenses paid by our Company were approximately HK\$47,000.

### 7. Promoters

Our Company has no promoter for the purposes of the GEM Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

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### 8. Qualifications of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this document are as follows:

<b>Name</b>	<b>Qualification</b>
Kingsway Capital Limited	A corporation licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Stevenson, Wong & Co.	Legal advisors to our Company as to Hong Kong law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
BDO Limited	Certified Public Accountants
Deacons	Legal advisors to our Company as to Hong Kong law on the Buildings Ordinance matters
Allen Chan & Co.	Legal advisors to our Company as to Hong Kong law on the Construction Sites (Safety) Regulations matters
Mr. Billy C.K. Poon	Barrister-at-law of Hong Kong
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Chartered professional surveyors and valuers
Edwin Yeung & Company (CPA) Limited	Certified Public Accountants

### 9. Consents of experts

Each of Kingsway Capital Limited, Stevenson, Wong & Co., Conyers Dill & Pearman, BDO Limited, Deacons, Allen Chan & Co., Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Edwin Yeung & Company (CPA) Limited has given and has not withdrawn its respective written consent to the issue of this document with the inclusion of its report and/or letter and/or opinions and/or summaries of opinion (as the case may be) and the references to their names included in this document in the form and context in which it is respectively included.

### 10. Interests of experts in our Company

None of the persons named in paragraph "E. Other Information — 8. Qualifications of experts" of this Appendix is interested beneficially or otherwise in any Shares or share of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

### 11. Binding effect

This document 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.

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### 12. No material adverse change

Our Directors confirmed that, up to the Latest Practicable Date, there has been no material adverse change in financial or trading position or prospects of our Group since 30 September 2015, being the date on which the latest financial information of our Group was reported in the Accountants' Report included in Appendix I to this document.

### 13. Miscellaneous

- (a) Save as disclosed in this document, within the two years and six months preceding the date of this document:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
  - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company or any of our subsidiaries;
- (b) No founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries have been issued or agreed to be issued.
- (c) There has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this document.
- (d) None of Kingsway Capital Limited, Stevenson, Wong & Co., Conyers Dill & Pearman, BDO Limited, Deacons, Allen Chan & Co., Mr. Billy C.K. Poon, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Edwin Yeung & Company (CPA) Limited:
  - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) Our Company has no outstanding convertible debt securities as of the Latest Practicable Date.
- (g) The principal register of members of our Company will be maintained in the Cayman Islands by [REDACTED] and a branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our



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Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

- (h) Our Directors have been advised that, under the laws of Cayman Islands, the use of a Chinese name pre-approved by the Registrar of Companies of the Cayman Islands by our Company in conjunction with the English name, does not contravene the laws of Cayman Islands.
- (i) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

**14. Selling shareholder**

[REDACTED]

**15. Bilingual document**

Pursuant to 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), the English language and Chinese language versions of this document are being published separately. In case of any discrepancies between the English language version and Chinese language version, the English language version shall prevail.

**APPENDIX VI**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this document, copies of each of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this document and the [REDACTED] containing particulars of [REDACTED] as set out in the paragraph headed "Selling shareholder" in Appendix V to this document.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Stevenson, Wong & Co. at 4th and 5th Floors and 1602, Central Tower, 28 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of Association;
- (b) the accountants' report of our Group prepared by BDO Limited, the text of which is set out in Appendix I to this document;
- (c) the report on unaudited pro forma financial information of our Group prepared by BDO Limited, the text of which is set out in Appendix II to this document;
- (d) the consolidated audited financial statements of our Group for the two years ended 31 March 2015 and the six months ended 30 September 2015;
- (e) the letter prepared by Conyers Dill & Pearman, summarising certain aspects of Cayman Companies Law referred to in Appendix IV to this document;
- (f) the Companies Law;
- (g) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this document;
- (h) the service contracts and letters of appointment with each of our Directors referred to in the paragraph headed "C. Further information about Directors and substantial Shareholders — 1. Directors — (b) Particulars of service contracts and letters of appointment" in Appendix V to this document;
- (i) the [REDACTED] containing the particulars of [REDACTED] as set out in the paragraph headed "Selling shareholder" in Appendix V to this document;
- (j) the legal opinion issued by Stevenson, Wong & Co. dated [●] 2016;
- (k) the legal opinion issued by the Deacons dated [●] 2016;
- (l) the legal opinion issued by Mr. Billy C.K. Poon dated [●] 2016;
- (m) the legal opinion issued by Allen Chan & Co. dated [●] 2016;
- (n) the letter of advice issued by Edwin Yeung & Company (CPA) Limited;

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

- (o) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;
- (p) the written consents referred to in the paragraph headed "E. Other information — 9. Consents of experts" in Appendix V to this document; and
- (q) the rules of the Share Option Scheme.