

Maxicity Holdings Limited

豐城控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

Stock code: 8216

BY WAY OF SHARE OFFER

Sponsor



Sole Bookrunner and Sole Lead Manager



IMPORTANT

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

Maxicity Holdings Limited

豐城控股有限公司

(incorporated in the Cayman Islands with members' limited liability)

LISTING ON THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 100,000,000 Shares (subject to the Offer Size Adjustment Option)
Number of Placing Shares	: 90,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)
Number of Public Offer Shares	: 10,000,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$0.7 per Offer Share and expected to be not less than HK\$0.6 per Offer Share (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 8216

Sponsor



Sole Bookrunner and Sole Lead Manager



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

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

The Offer Price is expected to be fixed by the Price Determination Agreement between our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter) on the Price Determination Date, which is expected to be on or before Friday, 6 December 2019 at or before 5:00 p.m., or such later date or time as may be agreed by the Sole Lead Manager (for itself and on behalf of the Underwriter) and our Company. The Offer Price will not be more than HK\$0.7 per Offer Share and is expected to be not less than HK\$0.6 per Offer Share. If our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter) are unable to reach an agreement on the Offer Price by that date or time or such later date or time as agreed by our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter), the Share Offer will not become unconditional and will not proceed. The Sole Lead Manager (for itself and on behalf of the Underwriter) may, with the consent of our Company, reduce the number of Offer Shares and/or the above indicative Offer Price range at any time prior to the Price Determination Date. In such a case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.maxicity.com.hk. As soon as practicable after such reduction in the number of Offer Shares and/or of the Offer Price range, we will (a) issue a supplemental prospectus informing potential investors of, among other things, the changes to the Share Offer, including the change in the Offer Price and period of the Public Offer and the impact of such change on the sufficiency of working capital and use of proceeds; and (b) extend the offer period to allow potential investors to have sufficient time to consider and to confirm their applications under an opt-in approach, that is, to positively confirm their applications for the Offer Shares in light of the change in the Offer Price.

Pursuant to the termination provisions contained in the Underwriting Agreements, the Sole Lead Manager (for itself and on behalf of the Underwriter) have the right in certain circumstances, at their absolute discretion, to terminate the obligations of the Underwriter under the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be on Friday, 13 December 2019). Details of the terms of the termination provisions are set out in the paragraph headed "Underwriting – Underwriting arrangements and expenses – Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

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

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given the companies listed on GEM are generally small and mid-sized companies, 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.

EXPECTED TIMETABLE

(Note 1)

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

Application Forms available from 9:00 a.m. on
Saturday, 30 November 2019

Application lists for Public Offer open ^(Note 2) 11:45 a.m. on
Thursday, 5 December 2019

Latest time for lodging **WHITE** and **YELLOW**

Application Forms 12:00 noon on
Thursday, 5 December 2019

Latest time for give **electronic application**

instructions to HKSCC^(Note 3) 12:00 noon on
Thursday, 5 December 2019

Application lists for Public Offer close ^(Note 2) 12:00 noon on
Thursday, 5 December 2019

Expected Price Determination Date on or before ^(Note 4) Friday, 6 December 2019

Announcement of the final Offer Price, the level of indication
of interest in the Placing, the level of applications of
the Public Offer, the basis of allotment and the results
of applications in the Public Offer to be published
in our Company's website at www.maxicity.com.hk and the
website of the Stock Exchange at www.hkexnews.hk

on or before Thursday, 12 December 2019

Announcement of results of allocations in the Public Offer
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of
channels including our Company's website at www.maxicity.com.hk and
the website of the Stock Exchange at www.hkexnews.hk
(for further details, please refer to the section headed
"How to apply for Public Offer Shares –

10. Publication of results" of this prospectus)
on or before Thursday, 12 December 2019

Results of allocations in the Public Offer will be
available at www.ewhiteform.com.hk/results with

a "search by ID" function on Thursday, 12 December 2019

Despatch/collection of refund cheques in respect of wholly or
partially unsuccessful applications and wholly or partially
successful applications in case the final Offer Price is less than
the maximum Offer Price paid for the applications pursuant to
the Public Offer on or before ^(Notes 6 to 9) Thursday, 12 December 2019

EXPECTED TIMETABLE

Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before ^(Notes 5 to 8) Thursday, 12 December 2019

Dealings in Shares on GEM expected to commence at 9:00 a.m. on Friday, 13 December 2019

Notes:

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” of this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 December 2019, the application lists will not open on that day. For further details, please refer to the section headed “How to apply for Public Offer Shares – 9. Effect of bad weather on the opening of the application lists” of this prospectus.
3. Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to the paragraph headed “How to apply for Public Offer Shares – 5. Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
4. The Price Determination Date is expected to be on or before Friday, 6 December 2019. If, for any reason, the Offer Price is not agreed on or before Monday, 9 December 2019 between our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter), the Share Offer will not proceed and will lapse accordingly.
5. Share certificates for the Public Offer Shares are expected to be issued on or before Thursday, 12 December 2019 but will only become valid certificates of title at 8:00 a.m. on Friday, 13 December 2019 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.
6. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 12 December 2019 or any other day as announced by us as the date of despatch of Share certificates/refund cheques.

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

7. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not collect their Share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participants’ stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
8. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant’s own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed “How to apply for Public Offer Shares – 13. Despatch/collection of share certificates and refund monies” of this prospectus.

EXPECTED TIMETABLE

9. Refund cheques will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$0.7 per Offer Share.

In the event of any change to the above expected timetable after the date of this prospectus, an announcement will be made on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.maxicity.com.hk accordingly. All Share certificates will only become valid certificates of title of the Shares which they relate provided that the Share Offer has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms at or before 8:00 a.m. (Hong Kong time) on the Listing Date.

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

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You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Sole Lead Manager, the Underwriter, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the section headed “Definitions and Glossary” in this prospectus.

BUSINESS OVERVIEW

We are a slope works contractor in Hong Kong. We commenced our business in 2013 and mainly undertook slope works in the role of subcontractor during the Track Record Period. Save for one completed private sector project awarded to us as main contractor in June 2018 which contributed HK\$0.2 million to our revenue, we undertook all of our projects in the role of subcontractor during the Track Record Period. The slope works undertaken by us generally involve landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls. During the Track Record Period, all of our revenue was derived in Hong Kong in terms of the geographical location of our project sites.

We are experienced in undertaking different kinds of slope works which mainly comprise (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works. If so requested by our customer, we may also assist our customer in carrying out ground investigation and preparing foundation designs of flexible barrier system.

We possess certain machinery and motor vehicles for use in our operation. As at the Latest Practicable Date, we owned two air compressors, one crane truck, one excavator and 12 motor vehicles.

Projects undertaken during the Track Record Period

For FY2017, FY2018 and the five months ended 31 May 2019, there were 12, 16 and 15 projects which contributed a total of approximately HK\$94.3 million, HK\$111.2 million and HK\$75.3 million to our revenue, respectively. During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. In respect of public sector projects, our customers were generally construction contractors which are registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau. During the Track Record Period, the project owners of our public sector projects generally included the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department. In respect of private sector projects, our customers

SUMMARY

were generally construction contractors engaged by property owners and educational institutions. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material delay in the execution of our projects.

The following table sets forth a breakdown of our revenue during the Track Record Period for private and public sector projects:

	FY2017			FY2018			Five months ended 31 May 2018			Five months ended 31 May 2019		
	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000 <i>(Unaudited)</i>	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue
Public sector	9	89,827	95.2	11	106,045	95.3	10	51,816	99.8	11	58,876	78.2
Private sector	3	4,496	4.8	5	5,200	4.7	1	90	0.2	4	16,411	21.8
Total	12	94,323	100.0	16^(Note 1)	111,245	100.0	11	51,906	100.0	15^(Note 2)	75,287	100.0

Notes:

- Out of the 16 projects which contributed revenue to FY2018, 6 projects also contributed revenue to FY2017.
- Out of the 15 projects which contributed revenue to the five months ended 31 May 2019, 5 and 10 projects also contributed revenue to FY2017 and FY2018, respectively.

Set out below is a breakdown of our projects based on their respective range of revenue recognised during the Track Record Period:

	FY2017 <i>No. of projects</i>	FY2018 <i>No. of projects</i>	Five months ended 31 May 2019 <i>No. of projects</i>
Revenue recognised			
HK\$10.0 million or above	3	4	3
HK\$5.0 million to below HK\$10.0 million	0	2	2
HK\$1.0 million to below HK\$5.0 million	6	6	4
Below HK\$1.0 million	3	4	6
Total	12	16	15

SUMMARY

The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded and the success rate during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
Number of projects for which we have submitted tenders	12	17	10
Number of projects awarded <i>(Note)</i>	6	9	7
Success rate (%) <i>(Note)</i>	50.0	52.9	70.0

Note: In the above table, success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year/period or subsequently) in respect of the tenders submitted during that financial year/period.

Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017	FY2018	Five months ended 31 May 2019	From 1 June 2019 to the Latest Practicable Date
Opening number of projects <i>(Note 1)</i>	5	6	12	14
Number of new projects awarded to us <i>(Note 2)</i>	7	12	4	5
Number of projects completed <i>(Note 3)</i>	(6)	(6)	(2)	(1)
Ending number of projects <i>(Note 4)</i>	6	12	14	18

Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.
3. Number of projects completed means the number of projects which are practically regarded as completed.

SUMMARY

4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

In FY2017, FY2018 and during the period from 1 January 2019 up to the Latest Practicable Date, our Group completed six, six and three projects, respectively. Based on the expected completion date of our projects on hand as at the Latest Practicable Date, it is anticipated that our Group will complete an additional of six projects by the end of FY2019. As such, it is expected that our Group will complete a total of nine projects in FY2019. For further details of the expected completion dates of our projects on hand, please refer to the paragraph headed “Business – Projects on hand” in this prospectus.

The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017	FY2018	Five months ended 31 May 2019	From 1 June 2019 to the Latest Practicable Date
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>
Opening value of backlog	100,716	168,681	155,501	153,987
Total value of new projects and variation orders awarded ^(Note 1)	162,288	98,065	73,773	110,661
Revenue recognised	<u>(94,323)</u>	<u>(111,245)</u>	<u>(75,287)</u>	<u>(77,094)</u>
Ending value of backlog ^(Note 2)	<u><u>168,681</u></u>	<u><u>155,501</u></u>	<u><u>153,987</u></u>	<u><u>187,554</u></u>

Notes:

- Total value of new projects and variation orders awarded means (i) the original estimated contract sum of new projects awarded, or where applicable, the adjusted contract sum taking into account the actual amount of orders under the contracts; and (ii) the value of variation orders issued by our customers in the relevant year/period indicated.
- Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

Our customers

During the Track Record Period, our customers mainly included construction contractors in Hong Kong. The number of customers with revenue contribution to our Group was five, seven and seven for FY2017, FY2018 and the five months ended 31 May 2019, respectively. For each of FY2017, FY2018 and the five months ended 31 May 2019, the percentage of our total revenue attributable to our top customer amounted to approximately 74.3%, 31.1% and 41.2%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 98.5% and 97.9%, respectively.

SUMMARY

During the course of our business, there may be occasions where our customers pay on our behalf for materials and other miscellaneous items such as site planning and surveying services, machinery rental and motor vehicle expenses required in our projects and subsequently deduct such payments when settling our service fees for the project. For further details, please refer to the paragraph headed “Business – Our customers” in this prospectus.

Our relationship with Tai Kam Construction Engineering Company Limited

Tai Kam Construction Engineering Company Limited is the main operating subsidiary of Tai Kam Holdings Limited being listed on the GEM of The Stock Exchange (stock code: 8321). Tai Kam Construction Engineering Company Limited has been one of our top five customers during the Track Record Period (being our largest customer in FY2017 and FY2018) which contributed revenue of approximately HK\$70.1 million, HK\$34.6 million and HK\$2.8 million, representing approximately 74.3%, 31.1% and 3.7% of our total revenue for FY2017, FY2018 and the five months ended 31 May 2019, respectively. Each of our two executive Directors, Mr. Sieh and Mr. Ho (being our Controlling Shareholders), were previously under the employment of Tai Kam Construction Engineering Company Limited before joining our Group in late 2016. Mr. Sieh worked for Tai Kam Construction Engineering Company Limited from June 2011 to August 2016 as a site agent, whereas Mr. Ho worked for Tai Kam Construction Engineering Company Limited from November 2011 to August 2016 as a site agent as his last position.

Our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) subcontractors; (ii) suppliers of materials; and (iii) suppliers of other miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. The following table sets forth a breakdown of our total purchase during the Track Record Period by type of suppliers:

	FY2017		FY2018		Five months ended 31 May 2018		Five months ended 31 May 2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(Unaudited)</i>							
Subcontracting services	20,457	43.0	24,820	44.0	10,641	39.6	17,853	42.2
Materials	15,385	32.4	15,781	27.9	7,435	27.7	12,438	29.4
Other services ^(Note)	11,676	24.6	15,862	28.1	8,765	32.7	12,036	28.4
Total	47,518	100.0	56,463	100.0	26,841	100.0	42,327	100.0

Note: These miscellaneous services mainly included site planning and surveying services, motor vehicle expenses and machinery rental services.

SUMMARY

Our major licences and registrations

A-City Workshop, our principal operating subsidiary, is a Registered Specialist Trade Contractor under reinforcement bar fixing, concreting formwork and concreting and a Registered Subcontractor in general civil works with specialty of earthwork and geotechnical works of the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. A-City Workshop is also registered with the Building Authority as a Registered General Building Contractor and a Registered Specialist Contractor under the sub-register of “site formation works”. For further details, please refer to the paragraph headed “Business – Licences and registrations” in this prospectus.

COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

The revenue of slope works in Hong Kong increased from approximately HK\$1,995.4 million in 2013 to approximately HK\$2,711.5 million in 2018, at CAGR of 6.3%. The estimated revenue of slope works in public sector recorded an increase from HK\$1,624.0 million in 2013 to HK\$2,233.1 million in 2018, at a CAGR of 6.6%. During the same period, the revenue in private sector increased from HK\$371.4 million in 2013 to HK\$478.4 million in 2018, representing a CAGR of 5.2%. According to the F&S Report, the launching of LPMitP by the Geotechnical Engineering Office is considered one of the key drivers for the Hong Kong slope works market. LPMitP regularly monitors the situation of all slopes in Hong Kong to mitigate the risks associated with both man-made slopes and natural hillside. Since the launching of LtPMitP, GEO has spent about HK\$22.9 billion on landslip prevention and mitigation studies and works; more than 5,550 Government man-made slopes were upgraded, and more than 250 mitigation works for natural hillside had been implemented. Coupled with the increasing population and more buildings sit next to steep slopes, it is expected that the Government will put more effort on promotion of LPMitP to ensure the safety of all man-made slope and natural hillside. With the continuous efforts by the Government in this regard to slope safety, the demand for slope works is expected to rise accordingly. Hence, the estimated revenue of slope works in Hong Kong is forecasted to experience the growth from HK\$2,917.9 million in 2019 to HK\$3,875.8 million in 2023, at a CAGR of 7.4%.

We believe that our competitive strengths include: (i) we offer a comprehensive range of quality slope works; (ii) possession of a pool of skilled workers; (iii) experienced and dedicated management team; and (iv) stringent quality control and high safety standard and environmental impact control.

BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) reserving additional working capital to fulfil the requirements for being a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” (“**Approved Specialist Contractor**”); (ii) strengthening our manpower to increase our service capacity; (iii) strengthening our machinery; and (iv) increasing our reserve for financing the issue of performance guarantees. For further information, please refer to the paragraph headed “Business – Business strategies” in this prospectus.

SUMMARY

We currently intend to apply for registration for being an Approved Specialist Contractor by around December 2019 under our expansion plans. Based on our Directors' experience and industry knowledge from their enquiries with other Approved Specialist Contractors, it will take approximately seven to nine months for our application to process and we expect to obtain our registration as an Approved Specialist Contractor by August 2020. Based on tender invitations publicly available on gazettes or Government websites, our executive Directors expect that we will select and tender for suitable public sector projects from various Government authorities, including the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department in September 2020.

Our executive Directors anticipate that we will be able to obtain public sector projects under the scoring system of the Government, taking into consideration: (i) our Group possessed a pool of own skilled workers which gives us flexibility in our tender pricing; (ii) our accident rates during the Track Record Period were generally lower than the industry average of accident rate in Hong Kong; and (iii) our ability to fulfil the major attributes of the Contractors' Performance Index System. For further details, please refer to the paragraph headed "Business – 1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor (I) Commercial rationale for applying for the registration as an Approved Specialist Contractor – (iv) Our ability to obtain public sector projects as main contractor under the Government rating system" in this prospectus.

SALES AND MARKETING AND PRICING STRATEGY

During the Track Record Period, we secured new business mainly through direct invitations for tender by customers. On some occasions, we have approached the construction contractors which might have tendered for certain public sector projects we identified on gazettes or Government websites and discussed with them on the prospects of subcontracting the relevant works to us. Our Directors consider that due to our proven track record and our relationship with our existing customers, we are able to leverage on our existing customer base and our reputation in the slope works industry in Hong Kong such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management.

We normally charge our customers based on actual work done according to the bill of quantities set out in the contract. Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions. For further information, please refer to the paragraph headed "Business – Pricing strategy" in this prospectus.

RISK FACTORS

Potential investors are advised to carefully read the section headed "Risk factors" in this prospectus before making any investment decision in the Offer Shares. Some of the more particular risk factors include the following: (i) a significant portion of our revenue

SUMMARY

was generated from contracts awarded by a limited number of customers; (ii) a significant portion of our revenue during the Track Record Period was generated from public sector slope works projects and any significant reduction in the level of Government's spending on slope works may materially and adversely affect us; (iii) any significant cost overruns may materially and adversely affect our business operation and financial performance; and (iv) our revenue is mainly derived from our slope works on a project-by-project basis and our business depends on our success rate on project tendering.

KEY OPERATIONAL AND FINANCIAL DATA

The following tables set forth our key operational and financial data during the Track Record Period.

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

	FY2017	FY2018	Five months ended 31 May 2018	Five months ended 31 May 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Unaudited)</i>	
Revenue	94,323	111,245	51,906	75,287
Cost of services	<u>(75,460)</u>	<u>(89,660)</u>	<u>(42,010)</u>	<u>(61,053)</u>
Gross profit	18,863	21,585	9,896	14,234
Profit before income tax	16,642	19,069	9,030	4,246
Income tax expense	<u>(2,717)</u>	<u>(2,975)</u>	<u>(1,325)</u>	<u>(2,029)</u>
Profit and total comprehensive income for the year/period	13,925	16,094	7,705	2,217
			As at 31 December 2017	As at 31 May 2019
			<i>HK\$'000</i>	<i>HK\$'000</i>

Highlights of consolidated statements of financial position

Non-current asset	2,003	1,641	2,318
Current assets	28,281	38,499	45,670
Current liabilities	9,508	13,390	18,876
Non-current liabilities	309	188	333
Net current assets	18,773	25,109	26,794
Net assets	20,467	26,562	28,779

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Highlights of consolidated statements of cash flows

	FY2017 HK\$'000	FY2018 HK\$'000	Five months ended 31 May 2018 HK\$'000 (Unaudited)	Five months ended 31 May 2019 HK\$'000
Operating profit before working capital changes	17,161	19,687	9,287	4,648
Net cash generated from operating activities	9,338	7,216	6,222	3,519
Net cash used in investing activities	(1,628)	(3,962)	(62)	(218)
Cash flows used in financing activities	—	(2,000)	—	(4,806)
Net increase/(decrease) in cash and cash equivalents	7,710	1,254	6,160	(1,505)
Cash and cash equivalents at the beginning of year/period	3,470	11,180	11,180	12,434
Cash and cash equivalents at the end of the year/period, represented by cash and bank balances	<u>11,180</u>	<u>12,434</u>	<u>17,340</u>	<u>10,929</u>

Summary of financial ratios

	FY2017 or as at 31 December 2017	FY2018 or as at 31 December 2018	Five months ended 31 May 2019 or as at 31 May 2019
Gross profit margin (%)	20.0	19.4	18.9
Net profit margin (%)	14.8	14.5	2.9
Return on equity (%)	68.0	60.6	7.7
Return on total assets (%)	46.0	40.1	4.6
Current ratio	3.0	2.9	2.4
Quick ratio	3.0	2.9	2.4
Gearing ratio (%) ^(Note)	0	18.6	6.8

Note: Gearing ratio is calculated as total borrowings (i.e. amounts due to directors and lease liabilities) divided by the total equity as at the respective reporting date.

Our revenue increased from approximately HK\$94.3 million for FY2017 to approximately HK\$111.2 million for FY2018, representing an increase of approximately 17.9% or approximately HK\$16.9 million. Our revenue increased because we have actively approached our existing and potential customers resulting in the increase in our number of

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customers with revenue contribution to us from five in FY2017 to seven in FY2018, which contributed to (i) an increase in number of projects with revenue contribution to us and an increase in our revenue derived from projects of relatively larger scale; and (ii) there were two projects (i.e. Project #02 and Project #03, details of which are set out in the paragraph headed “Business – Projects undertaken during the Track Record Period” in this prospectus) which were at their initial startup stages during FY2017 resulting in less actual work done during FY2017.

Our revenue increased from approximately HK\$51.9 million for the five months ended 31 May 2018 to approximately HK\$75.3 million for the five months ended 31 May 2019, representing an increase of approximately 45.0% or approximately HK\$23.4 million. Our revenue increased because we have actively approached our existing and potential customers resulting in the increase in our number of projects with revenue contribution to us from 11 in the five months ended 31 May 2018 to 15 in the five months ended 31 May 2019. In particular the increase in our revenue was mainly due to: (i) an increase in number of projects with revenue contribution to us and an increase in our revenue derived from projects of relatively larger scale; and (ii) Project #03 (details of which are set out in the paragraph headed “Business – Projects undertaken during the Track Record Period” in this prospectus) had less actual work done during the five months ended 31 May 2018.

Our gross profit margin slightly decreased by approximately 0.6 percentage points from approximately 20.0% for FY2017 to approximately 19.4% for FY2018, and slightly decreased by approximately 0.5 percentage points from approximately 19.4% for FY2018 to approximately 18.9% for the five months ended 31 May 2019, which was mainly due to the increase in our use of subcontractors having considered the availability of our own labour resources in FY2018 and the five months ended 31 May 2019. Our Directors consider that holding all else the same, the engagement of subcontractors would generally lead to a lower profit margin for our Group, as a profit markup is generally factored in the fees charged by subcontractors.

Our operating profit before working capital changes decreased by approximately 50.0% from approximately HK\$9.3 million for the five months ended 31 May 2018 to approximately HK\$4.6 million for the five months ended 31 May 2019. The decrease in our operating profit before working capital changes was mainly because we incurred approximately HK\$8.4 million listing expenses for the five months ended 31 May 2019 which was one-off in nature. Our profit before income tax (excluding listing expense) increased by approximately 40.1% from approximately HK\$9.0 million for the five months ended 31 May 2018 to approximately HK\$12.7 million for the five months ended 31 May 2019.

Non-HKFRS measures

We recognised non-recurring items in the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profits and adjusted net profit margin as non-HKFRS measures.

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We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring listing expenses which is considered not indicative for evaluation of the actual performance of our business. We believe that these non-HKFRS measures provide additional information in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

The table below sets out the adjusted net profit and adjusted net profit margin in each respective year/period during the Track Record Period:

	FY2017	FY2018	For the five months ended 31 May	
			2018	2019
			<i>(Unaudited)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit and total comprehensive income for the year/period	13,925	16,094	7,705	2,217
Add: Non-recurring item – Listing expenses	–	139	–	8,407
Adjusted net profit for the year/period	<u>13,925</u>	<u>16,233</u>	<u>7,705</u>	<u>10,624</u>
Adjusted net profit margin for the year/period	14.7%	14.6%	14.8%	14.1%

CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), Good Hill (which is wholly owned by Mr. Ho and Mr. Sieh in equal share) will be entitled to exercise or control the exercise of 75% of the voting power at general meetings of our Company, therefore, Good Hill is our Controlling Shareholder. On the basis that Mr. Ho and Mr. Sieh have decided to restrict their ability to exercise direct control over our Company by holding their interests through Good Hill, Mr. Ho and Mr. Sieh are a group of our Controlling Shareholders. Please refer to the section headed “Substantial Shareholders” in this prospectus for details of the shareholding interest of our Controlling Shareholders.

In addition to the undertaking pursuant to rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has provided a voluntary undertaking to our Company on (i) non-disposal of their shareholdings in our Company for an extended period of 30 months from the date on which dealings in our Shares commenced on the Stock Exchange; (ii) they will not and will procure the Board of Directors not to, in the period during which they remain as Controlling Shareholders, cause any fundamental change in the principal

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business of our Company and that the revenue attributable to the undertaking of construction and related works shall represent 75% or above of our total revenue of the respective year/period. For further details of these undertakings, please refer to the paragraph headed “Relationship with Controlling Shareholders – Undertakings by our Controlling Shareholders” in this prospectus.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, we were involved in certain claims and potential claims that were arisen during our usual and ordinary course of business, which include (i) an ongoing common law personal injury claim; (ii) a settled employee’s compensation claim; (iii) three potential employees’ compensation claims; and (iv) three potential common law personal injury claims, in relation to workplace injuries. As at the Latest Practicable Date, our Group was also involved in a potential litigation in relation to our former employee who suffered heart attack during a break from work and was certified dead. According to a letter dated 4 December 2017 issued by the Labour Department, the Commissioner of the Labour Department considered that the deceased had likely died from natural causes. For further details, please refer to the paragraph headed “Business – Litigations and claims” in this prospectus.

OFFERING STATISTICS

Number of the Offer Shares : 100,000,000 Shares (subject to the Offer Size Adjustment Option)
Offer Price : Not more than HK\$0.7 per Offer Share and expected to be not less than HK\$0.6 per Offer Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)

	Based on an Offer Price of HK\$0.6 per Offer Share HK\$	Based on an Offer Price of HK\$0.7 per Offer Share HK\$
Market capitalisation ^(Note 1)	240,000,000	280,000,000
Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to equity holders of our Company per Share ^(Note 2)	0.18	0.21

Notes:

1. The calculation of the market capitalisation of the Shares is based on 400,000,000 Shares in issue and to be issued immediately after completion of the Share Offer but does not take into account any Shares which may be allocated and issued upon the exercise of the Offer Size Adjustment Option or options which may be granted under the Share Option Scheme or Shares which may allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.
2. Please refer to Appendix II to this prospectus for the bases and assumptions in calculating the figures.

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LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$25.0 million. Out of the amount of approximately HK\$25.0 million, approximately HK\$8.5 million is directly attributable to the issue of the Offer Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$16.5 million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$16.5 million that shall be charged to profit or loss, nil, approximately HK\$0.1 million and approximately HK\$8.4 million has been charged for each of FY2017 and FY2018 and the five months ended 31 May 2019 respectively and approximately HK\$8.0 million is expected to be incurred for the seven months ending 31 December 2019. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2019 will be affected by the expenses in relation to the Listing.

FUTURE PLANS AND USE OF PROCEEDS

The net proceeds to be received by us from the Share Offer based on the Offer price of HK\$0.65 per Share being the mid-point of the indicative Offer Price range of HK\$0.6 per Offer Share to HK\$0.7 per Offer Share, after deducting related expenses in connection with the Share Offer, are estimated to be approximately HK\$40.0 million. Our Directors presently intend that the net proceeds will be applied as follows: (i) approximately HK\$22.0 million, representing 55.0% of the estimated net proceeds will be used for satisfying the applicable working capital requirement which is to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts for being a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of "Landslip preventive/remedial works to slopes/retaining walls" (*Note*); (ii) approximately HK\$11.3 million, representing 28.3% of the estimated net proceeds will be used for strengthening our manpower by recruiting additional staff, including project manager/site agent, site engineer, site foremen, safety officer/supervisor, labour officer, crane truck operator, site workers and administrative staff; (iii) approximately HK\$4.7 million, representing 11.7% of the estimated net proceeds will be used for financing the acquisition of additional machinery, namely drilling rigs, grout pumps, shotcrete machine, pneumatic drill, crane truck, air compressors, generators and motor vehicles; and (iv) approximately HK\$2.0 million, representing 5.0% of the estimated net proceeds will be used for increasing our reserve for financing the issue of performance guarantees in favour of our customers.

Note: Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, the combined value of uncompleted works on outstanding contracts for a financial year is determined based on the annual revenue to be derived from projects undertaken throughout that financial year. On this basis, as we estimate the working capital for satisfying the Specific Working Capital Requirement by the time we successfully become an Approved Specialist Contractor, we have made reference to the annual revenue to be recognised in FY2019 from (i) our projects on hand as at 1 January 2019; (ii) projects that were awarded to us from 1 January 2019 to the Latest Practicable Date; and (iii) the two Government contracts that we target to obtain. It is estimated that we will have to earmark HK\$22.2 million of working capital for satisfying our Specific Working Capital Requirement. Our executive Directors consider that the above estimation is reasonable and supported by the fact that (i) the ending value of backlog as the Latest Practicable Date (i.e. approximately HK\$187.6 million) is higher than that as at 31 December 2018 (i.e. approximately HK\$155.5 million); and (ii) solely based on our existing projects and without taking into account our tendered projects and new tender opportunities available in FY2020, our revenue to be recognised in FY2020 is expected to be approximately HK\$134.0 million, which represents around 72.8%

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of our projected revenue for FY2019 (i.e. approximately HK\$184.0 million). The working capital of HK\$22.2 million we reserved for satisfying our Specific Working Capital Requirement would be recognised by our Group as cash and bank balance under our current assets.

DIVIDEND

For each of FY2017 and FY2018 and the five months ended 31 May 2019, we declared dividends payables of nil, approximately HK\$10.0 million and nil, respectively to our then shareholders. The dividend was paid by setting off against the amount due from Mr. Sieh and Mr. Ho during FY2018. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors including our operation and financial performance profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payment ratio.

RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 18 projects on hand with an aggregate of approximately HK\$264.6 million yet to be recognised as revenue after the Track Record Period, among which, approximately HK\$107.8 million, HK\$147.3 million, and HK\$9.5 million are expected to be recognised as revenue in the seven months ending 31 December 2019, FY2020 and FY2021, respectively. Out of the HK\$107.8 million expected to be recognised from our projects on hand during the seven months ending 31 December 2019, HK\$77.1 million has been recognised as our revenue from 1 June 2019 up to the Latest Practicable Date. For further details, please refer to the paragraph headed “Business – Projects on hand” in this prospectus. Subsequent to 31 May 2019, we obtained (i) one project from Fong On Construction Limited with estimated contract sum of HK\$12.4 million; (ii) one project from Customer C with estimated contract sum of HK\$16.3 million; (iii) one project from Customer D with estimated contract sum of HK\$6.8 million and (iv) two projects from Geotech Engineering Limited with total estimated contract sum of HK\$69.0 million.

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 May 2019, and there have been no events since 31 May 2019 which would materially affect the information shown in our consolidated financial information included in the accountants’ report set forth in Appendix I to this prospectus. It is expected that our revenue recognised and our gross profit for the five months ended 31 October 2019 will remain stable as compared to that for the five months ended 31 May 2019.

DEFINITIONS AND GLOSSARY

In this prospectus, unless the context otherwise requires, the following expressions shall have the meanings set forth below.

“A-City Workshop”	A-City Workshop Limited (晉城建業有限公司), a company incorporated in Hong Kong on 31 August 2012 with limited liability and upon completion of the Reorganisation indirectly wholly owned by our Company
“Application Form(s)”	WHITE Application Form(s) and YELLOW Application Form(s), or where the context so requires, any of them, relating to the Public Offer
“Architectural Services Department”	Architectural Services Department of the Government
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on 25 November 2019, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“associate(s)”	has the meaning ascribed thereto it under the GEM Listing Rules
“Authorised Signatory(ies)”	the appointed person(s) to act for a registered contractor for the purpose of the Buildings Ordinance
“Board” or “Board of Directors”	the board of Directors of our Company
“Building Authority”	the Building Authority of the Government
“Buildings Department”	the Buildings Department of the Government
“Buildings Ordinance”	the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate

DEFINITIONS AND GLOSSARY

“Capitalisation Issue”	the allotment and issue of 299,997,999 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further Information about our Group – 4. Written resolutions of our sole Shareholder” in Appendix IV to this prospectus
“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 clearing participant or 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”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CEDD”	Civil Engineering and Development Department of the Government
“Construction Industry Council”	the Construction Industry Council, a body corporate established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time

DEFINITIONS AND GLOSSARY

“Company” and “our Company”	Maxicity Holdings Limited (豐城控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 30 January 2019 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 13 March 2019
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the GEM Listing Rules and unless the context otherwise requires, means Good Hill, Mr. Ho and Mr. Sieh
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 25 November 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) as further detailed in the paragraph headed “E. Other information – 1. Tax and other indemnity” in Appendix IV to this prospectus
“Development Bureau”	the Development Bureau of the Government
“Director(s)”	the director(s) of our Company
“F&S” or “Frost & Sullivan”	Frost & Sullivan Limited, an independent market research agent
“F&S Report” or “Frost & Sullivan Report”	a market research report commissioned by us and prepared by F&S on the overview of the industry in which our Group operates
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ending 31 December 2019
“FY2020”	the financial year ending 31 December 2020
“FY2021”	the financial year ending 31 December 2021
“GEM”	the GEM of the Stock Exchange

DEFINITIONS AND GLOSSARY

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, modified and supplemented from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Good Hill”	Good Hill Investment Limited (峻峰投資有限公司), (a) a company incorporated in BVI on 16 January 2019 with limited liability; and (b) one of our Controlling Shareholders, which is directly owned as to 50% by each of Mr. Ho and Mr. Sieh respectively
“Government”	the Government of the Hong Kong
“Group”, “we”, “us” or “our Group”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period before our Company became the holding company of its present subsidiaries pursuant to the Reorganisation
“Highways Department”	Highways Department of the Government
“HKD” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Boardroom Share Registrars (HK) Limited, the Hong Kong branch share registrar of our Company

DEFINITIONS AND GLOSSARY

“Housing Authority”	the Hong Kong Housing Authority, a statutory body in Hong Kong established under the Housing Ordinance (Chapter 283 of the Laws of Hong Kong) which is responsible for developing and implementing Hong Kong’s public housing programme
“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, its subsidiaries or any of their respective associates and not otherwise a connected person of our Company
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 14001:2015”	an environmental management system standard that maps out a framework that a company or organisation can follow to set up an effective environmental management system, to provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved
“ISO 9001:2015”	a quality management system standard that is based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement
“Kanic International”	Kanic International Limited (勤達國際有限公司), a company incorporated in BVI on 5 March 2019 with limited liability and upon completion of the Reorganisation directly wholly owned by our Company
“Labour Department”	the Labour Department of the Government
“Lands Department”	the Lands Department of the Government
“Landslip Prevention and Mitigation Programme” or “LPMitP”	the rolling Landslip Prevention and Mitigation Programme launched by the Geotechnical Engineering Office of the CEDD in 2010

DEFINITIONS AND GLOSSARY

“Latest Practicable Date”	20 November 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
“Legal Counsel”	Mr. Chan Chung, barrister-at-law of Hong Kong
“List of Approved Specialist Contractors for Public Works”	the “List of Approved Suppliers of Materials and Specialist Contractors for Public Works” maintained by the Development Bureau
“Listing”	listing and the commencement of dealings of the Shares on GEM
“Listing Date”	the date, expected to be on or about Friday, 13 December 2019, on which dealings in the Shares first commence on GEM
“Listing Division”	the Listing Division of the Stock Exchange (with responsibility for GEM)
“man-made slopes”	slopes with certain man-made features, including cut-back slopes, slopes formed by filled materials, slopes with the support of retaining walls, and slopes containing disturbed terrain features
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted and took effect on 25 November 2019, a summary of which is set out in Appendix III of this prospectus, as amended from time to time
“Mr. Ho”	Mr. Ho Ka Ki (何家淇), our executive Director, our chief executive officer and one of our Controlling Shareholders
“Mr. Sieh”	Mr. Sieh Shing Kee (謝城基), our executive Director, chairman of our Board and one of our Controlling Shareholders
“natural hillsides”	sloping terrains that are not significantly modified by human activities
“Non-Authorised Institution”	an institution non-authorised under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) to carry on the business of taking deposits

DEFINITIONS AND GLOSSARY

“NRMM Regulation”	The Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.7 per Share and expected to be not less than HK\$0.6 per Share at which the Offer Shares are to be offered under the Share Offer, to be determined in the manner as set out in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Offer Share(s)”	collectively, the Public Offer Shares and the Placing Shares
“Offer Size Adjustment Option”	the option expected to be granted by our Company to the Placing Underwriter and exercisable by the Sole Lead Manager (for itself and on behalf of the Placing Underwriter) under the Placing Underwriting Agreement exercisable prior to Listing, pursuant to which our Company may be required to allot and issued up to an aggregate 15,000,000 additional Offer Shares representing up to 15% of the Offer Shares initially available under the Share Offer, at the Offer Price solely to cover over-allocation in the Placing
“OHSAS 18001:2007”	an international standard setting out requirements for an occupational health and safety management system developed for managing the occupational health and safety risks associated with a business
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriter at the Offer Price to selected professional, institutional and other investors as set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 Shares being initially offered by our Company for subscription under the Placing subject to reallocation and the Offer Size Adjustment Option, as described under the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Placing Underwriter”	the underwriter that is expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares

DEFINITIONS AND GLOSSARY

“Placing Underwriting Agreement”	the underwriting agreement expected to be entered into on or around Friday, 6 December 2019 between our Company, our executive Directors, our Controlling Shareholders, the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Placing Underwriter relating to the Placing
“PRC” or “China”	the People’s Republic of China, which for the purpose of this prospectus, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into by the Sole Lead Manager (for itself and on behalf of the Underwriter) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date expected to be on or around Friday, 6 December 2019, on which the Offer Price will be determined for the purpose of the Share Offer
“Project #01 – Project #10”	the top 10 projects in terms of accumulated revenue contribution to our Group during the Track Record Period, details of which are set out in the paragraph headed “Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period” in this prospectus
“Project A1 – Project A8”	our projects with Tai Kam Construction Engineering Company Limited during the Track Record Period and up to the Latest Practicable Date, details of which are set out in the paragraph headed “Business – Our customers – Our business relationships with Tai Kam Construction Engineer Company Limited” in this prospectus
“Project F1 – Project F6”	our projects with Geotech Engineering Limited during the Track Record Period and up to the Latest Practicable Date, details of which are set out in the paragraph headed “Business – Our customers – Business arrangement with Geotech Engineering Limited” in this prospectus

DEFINITIONS AND GLOSSARY

“Project O01 – Project O18”	our projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced as at the Latest Practicable Date, details of which are set out in the paragraph headed “Business – Projects on hand” in this prospectus
“Public Offer”	the issue and offer of the Public Offer Shares for subscription in Hong Kong at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	the 10,000,000 Shares initially being offered for subscription under the Public Offer, subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Underwriter”	the underwriter of the Public Offer whose name is set out in the section headed “Underwriting – Public Offer Underwriter” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 29 November 2019 entered into between our Company, our executive Directors, our Controlling Shareholders, the Sponsor, and I Win Securities Limited (in the capacities of the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriter) relating to the Public Offer
“Registered General Building Contractor”	a person whose name is on the register of general building contractors maintained under section 8A of the Buildings Ordinance from time to time
“Registered Specialist Contractor”	a person whose name is on the register of specialist contractors maintained under section 8A of the Buildings Ordinance from time to time
“Registered Specialist Trade Contractors Scheme”	Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council
“Regulated Machine(s)”	any mobile machine(s) or transportable industrial equipment(s) (other than a vehicle of a class specified in Schedule 1 to the Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong) that is/are powered by an internal combustion engine with a rated engine power output that is greater than 19 kW but not greater than 560 kW
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS AND GLOSSARY

“Reorganisation”	the shareholding and corporate reorganisation arrangements implemented by our Group in preparation for the Listing which is more particularly described in the section headed “History, Development and Reorganisation” in this prospectus
“SFC” or “Securities and Futures Commission”	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
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in HK dollars and listed on GEM
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 25 November 2019, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus
“slope works”	in respect of our business, generally refer to landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls
“Sole Bookrunner” or “Sole Lead Manager”	I Win Securities Limited
“Sponsor”	Grande Capital Limited, the sponsor to our Company’s application for the Listing and a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“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, as amended, supplemented or otherwise modified from time to time

DEFINITIONS AND GLOSSARY

“Technical Circular”	the technical circular issued by the work branch of the Development Bureau on 8 February 2015
“Technical Director(s)”	in respect of any registered contractor which is a corporate entity, a director authorised by the board of directors of such contractor to ensure the works are carried out in accordance with the Buildings Ordinance
“Track Record Period”	FY2017, FY2018 and the five months ended 31 May 2019
“Underwriter”	the Public Offer Underwriter and the Placing Underwriter
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	United States Securities Act of 1933, as amended, modified and supplemented from time to time
“Water Supplies Department”	Water Supplies Department of the Government
“WBDB”	Works Branch of the Development Bureau
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s) and to be completed in accordance with the instructions in the section headed “How to apply for Public Offer Shares” in this prospectus
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS and to be completed in accordance with the instructions in section headed “How to apply for Public Offer Shares” in this prospectus
“%”	per cent

FORWARD-LOOKING STATEMENTS

This prospectus 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;
- future development in our Group's industry; and
- factors beyond our control such as catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters.

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 prospectus 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 prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, Shareholders should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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

RISK FACTORS

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the Offer Shares. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this prospectus. Factors that could contribute to such differences are set out below as well as in other parts in this prospectus.

RISKS RELATING TO OUR BUSINESS

A significant portion of our revenue was generated from contracts awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial condition and operating results

A significant portion of our revenue was derived from a limited number of customers during the Track Record Period. Our top five customers for each of FY2017, FY2018 and the five months ended 31 May 2019 accounted for approximately 100.0%, 98.5% and 97.9% of our revenue, respectively. During the Track Record Period, we secured new businesses mainly through direct invitation for tender by our customers, and contracts are normally awarded to us by our customers through a tendering process. In particular, a significant portion of our revenue during the Track Record Period was derived from Tai Kam Construction Engineering Company Limited, which is the main operating subsidiary of Tai Kam Holdings Limited being listed on the GEM of The Stock Exchange (stock code: 8321). Tai Kam Construction Engineering Company Limited has been one of our top five customers during the Track Record Period (being our largest customer in FY2017 and FY2018) which contributed revenue of approximately HK\$70.1 million, HK\$34.6 million and HK\$2.8 million, representing approximately 74.3%, 31.1% and 3.7% of our total revenue for FY2017, FY2018 and the five months ended 31 May 2019, respectively. Each of our two executive Directors, Mr. Sieh and Mr. Ho (being our Controlling Shareholders), were previously under the employment of Tai Kam Construction Engineering Company Limited before joining our Group in December 2016. For further details of the biographical information of Mr. Sieh and Mr. Ho, please refer to the section headed "Directors and senior management" in this prospectus.

There is no assurance that we will continue to obtain contracts from our major customers in the future. If there is a significant decrease in the number of projects awarded by our major customers, and we are unable to secure suitable projects of a comparable size and quantity as replacements from other customers, our financial condition and operating results would be materially and adversely affected.

RISK FACTORS

A significant portion of our revenue during the Track Record Period was generated from public sector slope works projects and any significant reduction in the level of Government's spending on slope works may materially and adversely affect us

A significant portion of our revenue was derived from public sector slope works projects of which the project employers are Government departments and statutory bodies. For FY2017, FY2018 and the five months ended 31 May 2019, revenue attributable to public sector projects amounted to approximately HK\$89.8 million, HK\$106.0 million and HK\$58.9 million, representing approximately 95.2%, 95.3% and 78.2% of our total revenue, respectively.

The Government's spending budget on civil engineering projects (especially those involving slope works, being the principal types of works we undertook during the Track Record Period) may change from year to year, which in turn may be affected by various factors, including but not limited to changes in the Government's policies in relation to landslip prevention and mitigation, changes in the Government's public housing policy, the amount of investment in the construction of new infrastructure and improvement of existing infrastructure by the Government, the general financial conditions of the Government and the general economic conditions in Hong Kong. Any reduction or significant delay in the level of spending on construction projects by the Government or discontinuation of favourable Government programmes such as the Landslip Prevention and Mitigation Programme may affect our business and operating results. In the event that the Government reduces or delays its level of spending on construction projects and our Group fails to secure sufficient business through the private sector, the business and financial positions and prospects of our Group could be materially and adversely affected.

Delay in the commencement of public sector projects, which may be caused by factors such as political disagreements in relation to such projects, delay in approval of funding proposals due to political filibustering and objections or legal actions by the affected members of the public, and the occurrence of large scale demonstration or occupation activities may adversely affect our operations and results of operation

For FY2017, FY2018 and the five months ended 31 May 2019, revenue generated from public sector projects contributed approximately 95.2%, 95.3% and 78.2% of our total revenue, respectively. The delay in commencement of public sector projects may adversely affect the demand for our slope works services and our results of operation. Delay in the commencement of public sector projects may be caused by, among other things, political disagreements in relation to such projects, delay in approval of the funding proposals for public works due to political filibustering by law-makers and objections, protests or legal actions by affected residents or entities. Our engagement in public sector projects depend on the timing of the funding approval by the committees of the Legislative Council of Hong Kong, where filibustering by the members thereof has often led to delays in the passing of public works funding proposals in recent years. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material delay in the commencement of our projects as a result of political disagreements in relation to such projects, delay in approval of funding proposals due to political filibustering and objections or legal actions by the affected members of the public, and the occurrence of large scale demonstration or occupation activities.

RISK FACTORS

The work schedule of our public sector projects could affect our revenue recognised each year. Delay in the commencement of our public sector projects may adversely affect our operations and financial position including but not limited to our revenue recognised for a given year, resource allocation and our analysis of the forecasted amount and timing of cash inflows and outflows in relation to our projects.

Rising costs of construction workers may increase our costs of operation

For FY2017, FY2018 and the five months ended 31 May 2019, our direct labour cost was approximately HK\$27.5 million, HK\$32.6 million and HK\$18.5 million, representing 36.5%, 36.4% and 30.3% of our cost of services, respectively. The Hong Kong construction industry has in general been facing the problem of labour shortage and aging workforce. According to the statistics of the Construction Industry Council, around 43.8% of the 482,900 registered construction workers as at 31 March 2019 were aged over 50 whereas only about 14.7% were aged below 30. The decline in the number of workers in Hong Kong, especially workers with skills and experience for slope works, may result in project delays and increasing operating costs. According to the F&S Report, the average daily wages of general workers in Hong Kong have increased from approximately HK\$716.3 in 2013 to approximately HK\$1,002.3 in 2018, representing a CAGR of approximately 7.0%, mainly due to labour shortage which was caused by a decreasing number of new workers as well as an aging workforce.

Where subcontractors are engaged, the fees charged by our subcontractors may be determined based on their own labour costs, plants and equipment cost and the costs of construction materials. Therefore, if labour costs in Hong Kong keep increasing, our subcontracting costs may increase in the future, which could materially and adversely affect our business operations and financial condition.

Subcontracting expenses are a significant component of our cost of services. For FY2017, FY2018 and the five months ended 31 May 2019, our subcontracting expenses were approximately HK\$20.5 million, HK\$24.8 million and HK\$17.9 million, representing 27.1%, 27.7% and 29.2% of our cost of services, respectively. The sensitivity analysis as disclosed in the paragraph headed “Financial information – Principal components of results of operations – Cost of services” illustrates the impact of hypothetical fluctuations in our subcontracting expenses on our profits during the Track Record Period.

Our revenue is mainly derived from our slope works on a project-by-project basis and our business depends on our success rate on project tendering

During the Track Record Period, we undertake slope works on a project-by-project basis. Therefore, our customers are under no obligation to continue to award contracts to us and there is no guarantee that we will be able to secure new contracts in the future. Accordingly, the number and scale of contracts and the amount of revenue that we are able to derive therefrom are affected by a series of factors including but not limited to changes in our customers’ businesses, changes in market conditions and changes in Government policies.

RISK FACTORS

Consequentially, our revenue may vary significantly from period to period, and it may be difficult to forecast the volume of our future business. For each of FY2017, FY2018 and the five months ended 31 May 2019, we recorded a tender success rate of approximately 50.0%, 52.9% and 70.0%, respectively. Our tender success rate is affected by a range of factors including our pricing and tender strategy, competitors' tender and pricing strategy, level of competition and our customers' evaluation standards. There is no guarantee that we will be able to achieve a tender success rate similar to those during the Track Record Period in the future.

Depending on the then market condition and competitive landscape, we may have to lower our pricing or adjust our tender strategy in order to maintain the competitiveness of our tenders. In the event that our Group fails to secure new projects from our customers of contract values, size and/or margins comparable to existing ones, our business and financial performance and results of operations will be materially and adversely affected.

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

Depending on the availability of our labour resources and the types of specialised works involved, we have from time to time subcontracted a portion of our works to subcontractors. For FY2017, FY2018 and the five months ended 31 May 2019, we incurred subcontracting expenses of approximately HK\$20.5 million, HK\$24.8 million and HK\$17.9 million, respectively.

In FY2017, FY2018 and the five months ended 31 May 2019, we have undertaken 12, 16 and 15 projects, respectively. Among these projects, we had delegated 50% or above of the works in three, five and four of our projects to our subcontractors in FY2017, FY2018 and the five months ended 31 May 2019, respectively. There is no assurance that the quality of services of our subcontractors can meet the requirements of our Group or our customers. There is no assurance that we are able to monitor the performance of our subcontractors as directly and efficiently as with our direct labour. Therefore, the engagement of subcontractors exposes us to the risks associated with non-performance, late performance or sub-standard performance of our subcontractors. Since we remain accountable to our customers for the performance and quality of services rendered by our subcontractors, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors' unsatisfactory performance. Such events could adversely affect our reputation, business operation, and financial position.

In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

Any significant cost overruns may materially and adversely affect our business operation and financial performance

Our projects are generally awarded through tender. The contract sum quoted in the tender is determined after evaluation of our scope of work and taking into account (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity

RISK FACTORS

of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions. For further details on our pricing strategy, please refer to the paragraph headed “Business – Pricing strategy” in this prospectus.

Our profitability is therefore dependent on our ability to manage our staff costs and secure services from our subcontractors with competitive fees at or below our estimated costs, as well as our ability to execute the projects efficiently.

There is no assurance that our actual costs incurred will not exceed the estimated costs. The actual amount of costs incurred in completing a project may be adversely affected by many factors, including adverse weather conditions, difficult geological conditions, shortage and cost escalation of labour and materials, customers’ variation orders, accidents, unforeseen site conditions, unanticipated technical problems, departure of key project management and supervision personnel involved, non-performance by our subcontractors, and other unforeseen problems and circumstances. Any under-estimation of costs, delay or other circumstances resulting in cost overruns may adversely affect our profitability, business operation and financial performance.

We are subject to credit risk in relation to the collectability of our trade receivables, contract assets and retention receivables

There can be no assurance that our customers will settle our invoices on time and in full. In addition, when undertaking contract works, some of our customers may, depending on the contract terms and our negotiation, hold up a certain percentage of each payment made to us as retention money. Such percentage generally represents up to 10% of each payment made to us subject to a maximum of 5% of the total contract sum. As at 31 December 2017 and 2018 and 31 May 2019, retention receivables of approximately HK\$0.4 million, HK\$1.2 million and HK\$2.4 million, respectively, were retained by our customers as retention money. Retention money withheld is generally released to us after the expiry of the defect liability period. However, there is no assurance that such retention money will be released by our customers to us on a timely basis and in full accordingly. Besides, some of our customers adopt a “pay when paid” policy with us and they have the right to pay us after collection of payments from their customers. In the event our customers fail to collect payment from their customers, this will, in turn, adversely affect the collectability of our payments from our customers.

Contract assets primarily represent our Group’s rights to considerations from customers for the provision of slope works, which arise when: (i) our Group completed the relevant services under such contracts but yet to be certified by architects, surveyors or other representatives appointed by customers; and (ii) our customers withhold certain amounts payable to our Group as retention money to secure the due performance of the contracts during the defect liability period of the construction project. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to our customer. Our Group recorded contract assets of approximately HK\$11.0 million, HK\$17.1 million and HK\$23.6 million as at 31 December 2017 and 2018 and 31 May 2019, respectively. For details of the subsequent settlement of these contract assets, please refer to the paragraph headed “Financial

RISK FACTORS

Information – Net current assets – Subsequent settlement of contract assets (excluding retention receivables)” in this prospectus. There is no assurance that we will be able to bill all or any part of contract assets for our services completed according to the payment terms of the contracts.

As at 31 December 2017 and 2018 and 31 May 2019, we recorded trade receivables of approximately HK\$2.7 million, HK\$4.0 million and HK\$3.9 million, respectively, of which nil, HK\$119,000 and nil were past due but not impaired. In the event that we are unable to collect a substantial portion of our trade receivables or retention receivables within the payment terms or at all, our cash flows and financial positions will be adversely affected.

Potential mismatch in time between receipt of progress payments from our customers, payment of project up-front costs, and payments to our suppliers and subcontractors may adversely affect our cash flows

We may experience net cash outflows as project up-front costs at the preliminary stage of a project which include installing temporary hoarding, performing site planning and surveying and setting up site offices. Our customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers or their authorised representatives before we issue an invoice to our customers. During the Track Record Period, depending on the scale of the projects, there was generally an average time period of two to six months since we incur up-front costs for the projects up to the time when we receive the first payment from our customers. In addition, our customers may withhold up to 10% of each of our progress payment as retention money and subject to a maximum of 5% of the total contract sum, which will be released to us upon the expiry of the defect liability period. As at 31 December 2017 and 2018 and 31 May 2019, retention receivables of approximately HK\$0.4 million, HK\$1.2 million and HK\$2.4 million, respectively were retained by our customers as retention money. Further, our customer may request us to provide performance guarantee issued by banks or insurance companies in the amount of certain percentage of the estimated contract sum in favour of our customer, which may result in the lock-up of a portion of our capital for potentially a prolonged period of time and thereby affecting our liquidity position. For further information, please refer to the paragraph headed “Business – Our customers – Principal terms of engagement” in this prospectus.

Accordingly, our cash flow typically turns from net outflows at the early stage of a project into accumulative net inflows gradually as the project progresses. During the Track Record Period, our average amount of upfront cost required to be paid as a percentage of total project cost was approximately 8.1%. This results in a cash flow gap and in the event that we have more projects at the initial stage or that a substantial amount of retention money from various projects are being withheld by our customers at any given point of time, our liquidity may be materially and adversely affected.

RISK FACTORS

Failure to complete our projects on a reliable and timely basis could materially affect our reputation, our financial performance or may subject us to claim

The contracts with our customers generally contain a liquidated damages clause under which we are liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract. Liquidated damages are generally determined on the basis of a fixed sum per day and/or according to certain damages calculating mechanism as stipulated under the contract.

Delay in a project may occur from time to time due to various unforeseen factors such as shortage of manpower, delays by subcontractors, industrial accidents, and delay in delivery of materials. If there is any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract. There is no assurance that there will not be any delay in our existing and future projects resulting in claims in relation to liquidated damages, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.

We may be a party to legal proceedings from time to time and we cannot assure you that such legal proceedings will not have a material adverse impact on our business. In particular, there may be potential employees' compensation claims and common law personal injury claims

We may receive claims in respect of various matters from our customers, subcontractors, workers and other parties concerned with our works from time to time. Such claims may include in particular employees' compensation claims and common law personal injury claims in relation to personal injuries suffered by workers as a result of accidents arising out of and in the course of employment of the injured workers. During the Track Record Period and up to the Latest Practicable Date, we encountered several incidents of claims arising out of our operations. Please refer to the paragraph headed "Business – Litigations and claims" in this prospectus for further information.

There is no assurance that we will not be involved in any claims or legal proceedings, nor can we assure you that any such claims or legal proceedings would not have a material adverse impact on our business. Should any claims against us fall outside the scope and/or limit of insurance coverage, our financial position may be adversely affected. Regardless of the merits of any outstanding and potential claims, we need to divert management resources and incur extra costs to handle these claims, which could affect our corporate image and reputation if they were published by the press. If the aforesaid claims were successfully made against our Group, we may need to pay damages and legal costs, which in turn could adversely affect our revenue, results of operations and financial position.

Legal proceedings can be time-consuming, expensive, and may divert our management's attention away from the operation of our business. Any claims or legal proceedings to which we may become a party in the future may have a material and adverse impact on our business.

RISK FACTORS

We are exposed to certain inherent risks relating to slope works

Prior to commencement of our projects, ground investigation may be conducted and our customers may supply us with the ground investigation report. However, information contained in these reports may not be sufficient to reveal the actual geology beneath our construction site due to technical limitations such as the limitation in the scope of underground investigation that can be carried out at the site.

There may be discrepancies between the actual geological conditions and the findings set out in these investigation reports. For instance, such investigations may not reveal the existence of rocks or identify any antiquities, monuments, structures beneath the site, artificial underground obstructions, bombs, contaminated soil, presence of unknown obstacles due to historical use of site, existing methane gas generated during construction, collapse of temporary structures, and land subsidence which may not have been anticipated at the preliminary stage. Such difficult or dangerous conditions at the underground level or at the work site may cause difficulties to our work, affect our work progress, incur additional project expenses and result in personal injuries or even fatality of our site workers.

Our profitability may be affected by the potential increase in depreciation expenses upon our planned acquisition of machinery

It is part of our business strategies to acquire additional machinery by utilising a portion of our net proceeds from the Share Offer, as further discussed in the paragraph headed “Business – Business Strategies” in this prospectus.

It is estimated that we will incur additional annual depreciation expenses of approximately HK\$1.1 million upon our acquisition of additional machinery. Our planned investments in machinery will increase our fixed costs (including depreciation expenses) but there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. Should we be unable to obtain more projects and increase our profitability after such planned investments, our business and financial positions and prospect may be adversely affected.

Our profitability may be affected by the potential increase in staff costs upon our planned recruitment of additional staff

It is part of our business strategies to strengthen our manpower to increase our service capacity. We intend to utilise a portion of our net proceeds from the Share Offer for recruiting additional staff, as further discussed in the paragraph headed “Business – Business strategies” in this prospectus.

We expect to incur additional annual staff costs of approximately HK\$11.3 million arising from recruiting and retaining all the additional staff under our recruitment plan. Our planned recruitment will increase our staff costs and there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. Should we be unable to obtain more projects and increase our profitability after such planned recruitment, our business and financial positions and prospect may be adversely affected.

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Our insurance coverage may not be adequate to cover potential liabilities

Certain risks disclosed elsewhere in this section such as risks in relation to customer concentration, our ability to obtain new contracts, our ability to retain and attract personnel, availability and performance of subcontractors, project and cost management, our ability to maintain and renew our registrations, credit risk and liquidity risk, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Insurance policies covering losses from acts of war, terrorism, or natural catastrophes are also either unavailable or cost prohibitive.

Further, we may be subject to liabilities against which we are not insured adequately or at all or liabilities against which cannot be insured. Should any significant liabilities arise due to accidents, natural disasters, or other events which are not covered or are inadequately covered by our insurance, our business may be adversely affected, potentially lead to a loss of assets, lawsuits, employee compensation obligations, or other forms of economic loss.

We cannot guarantee that our current levels of insurance are sufficient to cover all potential risks and losses. In addition, we cannot guarantee that we can renew our policies or can renew our policies on similar or other acceptable terms. If we suffer from severe unexpected losses or losses that far exceed the policy limits, it could have a material and adverse effect on our business, financial position, results of operations and prospect.

There is no assurance that we will be able to renew our registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council

A-City Workshop, our principal operating subsidiary, is currently registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council, which is due for renewal upon its expiry on 6 February 2024. Main contractors of certain types of public sector projects are required to engage subcontractors who are registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council.

Renewal of registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) is required every five years and is generally subject to certain technical and relevant industry experience requirements. A-City Workshop did not encounter any failure in renewing its registration under the Registered Specialist Trade Contractors Scheme since it first obtained the registration. There is no assurance that we will be able to renew such registration every time in the future. In the event of non-renewal of such registration, our reputation, our ability to obtain future businesses, and our business and financial position and prospects could be materially and adversely affected.

Failure to properly supervise site works as a Registered Specialist Contractor may result in prosecution or disciplinary action

A-City Workshop is registered as a Registered Specialist Contractor under the sub-register of “site formation works” category. For private sector projects, a person is required to appoint a Registered Specialist Contractor to carry out specialised works (such as site formation works) pursuant to section 9 of the Buildings Ordinance. Therefore, our

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customers may appoint us to act as a Registered Specialist Contractor pursuant to the requirement of section 9 of the Buildings Ordinance. The duties of a Registered Specialist Contractors are: (i) to provide continuous supervision to the carrying out of the works; (ii) to notify the Building Authority of any contravention of the regulations that would result from carrying out the works; and (iii) to comply generally with the Buildings Ordinance.

If we are appointed by our customer to act as a Registered Specialist Contractor in a private sector project and we fail to properly supervise the carrying out of the site works pursuant to the requirements of the Buildings Ordinance, we and our Directors may be subject to prosecution or disciplinary action, details of which are set out in the paragraph headed “Regulatory Overview – Contractor licensing regime and operation” in this prospectus. There is no assurance that such incidents will not occur in the future. In such event, our reputation, business operations and financial position may be materially and adversely affected.

There is no assurance that we will be able to renew our registration with the Buildings Department as a Registered Specialist Contractor in the future

A-City Workshop is currently registered as a Registered Specialist Contractor under the sub-register of “site formation works” category since June 2017, which is due for renewal upon its expiry on 19 May 2020. Renewal of the aforementioned registration with the Buildings Department is required every three years. Pursuant to the Buildings Ordinance, the Building Authority may refuse an application for renewal of registration (a) if it is satisfied that the applicant is no longer suitable (for any reason) for registration on the relevant register; or (b) if the applicant fails to provide relevant information and documentary proof required by the Building Authority. According to the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, in considering an application for renewal of registration, the Building Authority may take into account, among other factors, whether the applicant is inactive in the relevant works and whether the applicant has any conviction, disciplinary or suspension records in respect of labour safety offences, malpractice or misconduct in building works or construction related activities, provisions under the Buildings Ordinance, etc.

There is no assurance that we will be able to renew such registration every time in the future. In the event of non-renewal of such registration, the business and financial positions and prospects of our Group could be materially and adversely affected.

Our historical revenue, gross profit and gross profit margin may not be indicative of our future performance

For FY2017, FY2018 and the five months ended 31 May 2019, our gross profit amounted to approximately HK\$18.9 million, HK\$21.6 million and HK\$14.2 million, respectively; while our gross profit margin was 20.0%, 19.4% and 18.9%, respectively. However, such trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. There is no assurance that our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

RISK FACTORS

There is an inherent risk in using our historical financial information to project our future financial performance, as they do not have any positive implication or may only reflect on our past performance under certain conditions. Our future performance will depend on, among others, our ability to secure new contracts, control our costs, market conditions in Hong Kong, and competition among contractors. All these may reduce the number of projects awarded to us and/or limit profit margin of our projects.

In addition, our profit margin may also fluctuate from period to period due to factors such as (i) our ability to accurately estimate our costs when submitting a tender; (ii) the complexity and size of the project; (iii) subcontracting expenses; (iv) prices of materials; and (v) our pricing strategy. There is no assurance that our profit margin will remain stable in the future and that we can maintain our current level of performance.

Our success and continued growth are dependent on our key management team

Our Directors believe that our success, to a large extent, is attributable to, among other things, the contribution of Mr. Ho and Mr. Sieh, each being our executive Director, and Mr. Lau Chiu Ming, our project manager. Details of their background and experience are set out in the section headed “Directors and senior management” in this prospectus.

Our key personnel as well as their experience in the slope works industry in Hong Kong are crucial to our operations and financial performance. In addition, in order for A-City Workshop to maintain its registration as a Registered Specialist Contractor under the sub-register of “site formation works” category, among other things, A-City Workshop must have a minimum of one Authorised Signatory to act for it for the purpose of the Buildings Ordinance and one Technical Director who shall, among other things, provide technical support for the execution of works and ensure that the works are carried out in accordance with the Buildings Ordinance. As at the Latest Practicable Date, both the roles of Authorised Signatory and Technical Director of A-City Workshop were taken up by Mr. Ho. For further details, please refer to the paragraph headed “Business – Licences and registrations” in this prospectus.

Although we have entered into a service agreement with each of our executive Directors, there could be an adverse impact on our operations should any of our executive Directors terminate his service agreement with us or otherwise cease to serve our Group and appropriate persons could not be found to replace them. There is no assurance that we will be able to attract and retain capable staff in the future. In such event, the business and financial positions and prospects of our Group as well as our ability to maintain our licences and qualifications could be materially and adversely affected.

We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth. Accordingly, the loss of services of any of our key management without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business operations and prospects.

RISK FACTORS

Our business plan may not be implemented successfully which may adversely affect our prospect

Our Directors are of the view that the future plan of our Group has been prepared after due enquiry by reference to the expected future prospect of slope works industry and policies of the Government and the continuation of our competitive advantages and other factors considered relevant. Some of our future business strategies are based on certain assumptions, as discussed in the section headed “Future plans and use of proceeds” in this prospectus. The successful implementation of our business plan may be affected by a number of factors including the availability of sufficient funds, Government policies in relation to landslip prevention and mitigation, the economic conditions, our ability to maintain our existing competitive advantages, our relationships with our customers, the threat of substitutes and new market entrants as well as other factors disclosed elsewhere in this section headed “Risk factors”.

In particular, we intend to apply for registration as a probationary contractor on the List of Approved Specialist Contractors (“**Approved Specialist Contractor**”) for Public Works under the category of LPM as one of our business strategies. Based on their assessment, our executive Directors confirm that A-City Workshop will be eligible to become an Approved Specialist Contractor and tender for Government contracts once we have (i) obtained additional funding for satisfying the working capital requirement, and (ii) acquired certain machinery specified in the Contractor Management Handbook – Revision B published by the Development Bureau. Nevertheless, there is no assurance that we will be successful with our first application for the aforesaid registration or at all. Further, even if we become an Approved Specialist Contractor, we cannot guarantee that we will be able to obtain those public sector contracts that we tender for directly from the Government.

There is no assurance that our business plan can be successfully implemented. Should there be any material adverse change in our operating environment which results in our failure to implement our business plan or any part thereof, our business and financial position and prospect may be adversely affected.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

The Government’s budget and funding for slope works projects may be adversely affected by lawmakers’ filibustering in the Legislative Council

The majority of our Group’s revenue during the Track Record Period was derived from public sector projects. However, in recent years, filibustering by Hong Kong lawmakers has in certain cases led to the failure of or delay in the funding approval for certain public sector projects by the committees of the Legislative Council. Therefore, there is a risk that the Government’s budget and funding for slope works projects (and/or for infrastructure or other public projects that involve or require slope works) may be delayed, reduced or otherwise adversely affected as a result of lawmakers’ filibustering in the Legislative Council. In addition, there is also a risk that after being awarded with a Government slope works contract, the commencement date and the scope of works may be delayed, reduced, or otherwise adversely affected as a result of lawmakers’ filibustering in the Legislative Council. In such cases, our business and financial position and prospect could be materially and adversely affected.

RISK FACTORS

Industrial actions or strikes may affect our business

Typical construction works are divided into various disciplines, and each requires highly specialised labour. Industrial action of any one discipline may disrupt the progress of our construction works. During the Track Record Period, our projects did not encounter any strike action. However, there is no assurance that industrial actions or strikes will not be launched in the future. Such industrial actions or strikes may adversely impact our business performance and hence profitability and results of operation. Any delays in completing our works caused by such action may affect our business, financial conditions and results of operations.

RISKS RELATING TO THE SHARE OFFER

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

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group's revenues, earnings and cash flows, acquisitions made by our Group or its competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation, fluctuations in the market prices for our service, products or labours, the liquidity of the market for the Shares, or the general market sentiment regarding the industry in which we operate could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price.

Investor may experience dilution if we issue additional Shares in the future

Our Company may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, we may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

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

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling

RISK FACTORS

Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Future issues, offers or sale of Shares may adversely affect the prevailing market price of the Shares

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issues or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

RISKS RELATING TO THE PROSPECTUS

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

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

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

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

RISK FACTORS

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

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to us and the Share Offer that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriter, the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “**Professional Parties**”) involved in the Share Offer has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Offer Shares. You should rely only on the information contained in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

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

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by our Company, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, any of their respective directors, officers, agents, employees, affiliates and/or representatives or any other person or parties involved in the Share Offer.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" of this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for Public Offer Shares" of this prospectus and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer which is sponsored by the Sponsor and managed by the Sole Lead Manager (for itself and on behalf of the Underwriter). The Public Offer is fully underwritten by the Public Offer Underwriter under the terms and conditions of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter). Further information relating to the Public Offer Underwriter and the Share Offer and the

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

underwriting arrangements is set out in the section headed “Underwriting” of this prospectus. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined in Hong Kong dollars by our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter) on the Price Determination Date. For full information relating to the determination of the Offer Price, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

SELLING RESTRICTIONS

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his acquisition of Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

As at the Latest Practicable Date, no action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws or any applicable rules and regulations of such institutions pursuant to registration with or authorisation by relevant regulatory authorities as an exemption therefrom.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sponsor, the Sole Lead Manager, the Sole Bookrunner, the Underwriter, any of their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other persons or parties involved in the Share Offer.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Department for the listing of, and permission to deal in, on GEM, our Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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

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

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing 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. Not less than 25% of our Company’s enlarged issued share capital will be in the hands of the public immediately following the completion of the Capitalisation Issue and the Share Offer and upon Listing assuming any options that may be granted under the Share Option Scheme are not exercised.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding of, purchasing of, disposal of or dealing in, our Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, the Sole Lead Manager, the Sole Bookrunner and the Underwriter, their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other persons or parties involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding of, purchasing of, disposal of or dealing in, our Shares or the exercising their rights thereunder.

REGISTER OF MEMBERS AND STAMP DUTY

All our Shares will be registered on the Hong Kong branch register of members of our Company in Hong Kong in order to enable them to be traded on GEM. Only our Shares registered on the branch register of members maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees. Dealings in our Shares registered on the branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Unless determined otherwise by the Company, dividends payable in HK Dollars in respect of the Shares will be paid by cheque sent at the Shareholder’s risk to the registered address of each Shareholder or in the case of joint holders, the first-named Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, our Shares in issue and to be issued on GEM and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation,

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.

COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on GEM are expected to commence at 9:00 a.m. on Friday, 13 December 2019. Shares will be traded in board lots of 5,000 Shares each.

Our Company will not issue any temporary document of title.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart set out in this prospectus between totals and sums of individual amounts listed therein are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

CURRENCY TRANSLATIONS

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

US\$1.00 : HK\$7.80

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Ho Ka Ki (何家淇先生)	Flat A, 12/F Nam Hoi Mansion Taikoo Shing Quarry Bay Hong Kong	Chinese
Mr. Sieh Shing Kee (謝城基先生)	Flat D, 6/F Mei Foo Sun Chuen 3 Humbert Street Meifoo Sun Chuen Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Tso Ping Cheong Brian (曹炳昌先生)	Flat A, 10/F Tower 2, Pacific Palisades North Point Hong Kong	Chinese
Mr. Kwong Che Sing (龔志成先生)	Flat B, 6/F Block D Ching Chung Koon Road Government Quarters Tuen Mun New Territories Hong Kong	Chinese
Mr. Ling Siu Tsang (凌肇曾先生)	Flat B, 4/F Kwun Fung Mansion Lei King Wan Sai Wan Ho Hong Kong	Chinese

Please refer to the section headed “Directors and Senior Management” in this prospectus for further information.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sponsor

Grande Capital Limited

A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities

Room 2701, 27/F, Tower 1
Admiralty Centre
18 Harcourt Road, Admiralty
Hong Kong

Sole Bookrunner, Sole Lead Manager and Public Offer Underwriter

I Win Securities Limited

A licensed corporation under the SFO to engage in type 1 (dealing in securities) regulated activities

Room 1916, Hong Kong Plaza
188 Connaught Road West
Sai Wan
Hong Kong

Legal advisers to our Company

As to Hong Kong law:

Loeb & Loeb LLP

Solicitors, Hong Kong

21st Floor
CCB Tower
3 Connaught Road Central
Hong Kong

Mr. Chan Chung

Barrister-at-law

10th Floor, Grand Building
15-18 Connaught Road
Central
Hong Kong

As to Cayman Islands law:

Conyers Dill & Pearman

Cayman Islands attorneys-at-law

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

Legal advisers to the Sponsor, the Sole Lead Manager, the Sole Bookrunner and the Underwriter

As to Hong Kong law:

David Fong & Co.

Solicitors, Hong Kong

Unit A, 12/F
China Overseas Building
139 Hennessy Road
Wanchai, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Reporting Accountant and auditors	Grant Thornton Hong Kong Limited <i>Certified Public Accountants</i> Level 12 28 Hennessy Road Wanchai Hong Kong
Compliance adviser	Grande Capital Limited <i>A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities</i> Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong
Industry consultant	Frost & Sullivan Limited Suite 1706, One Exchange Square 8 Connaught Place Hong Kong
Internal control adviser	CT Partners Consultants Limited Unit 1601A, 16th Floor, Tower 6 China Hong Kong City 33 Canton Road Tsim Sha Tsui, Kowloon Hong Kong
Receiving bank	Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Room 2302-2303, 23/F Omega Plaza, 32-34A Dundas Street Mongkok, Hong Kong
Company's website	www.maxicity.com.hk (<i>information contained in such website does not form part of this prospectus</i>)
Company secretary	Mr. Lam Kau Wang (林教宏先生) (HKICPA, ACCA) Flat D, 28/F, Block 11 City One Shatin 2 Tak Lee Street Shatin, New Territories Hong Kong
Authorised representatives	Mr. Ho Ka Ki (何家淇先生) Flat A, 12/F Nam Hoi Mansion Taikoo Shing Quarry Bay, Hong Kong Mr. Lam Kau Wang (林教宏先生) (HKICPA, ACCA) Flat D, 28/F, Block 11 City One Shatin 2 Tak Lee Street Shatin, New Territories Hong Kong
Compliance officer	Mr. Ho Ka Ki (何家淇先生) Flat A, 12/F Nam Hoi Mansion Taikoo Shing Quarry Bay, Hong Kong
Audit committee	Mr. Tso Ping Cheong Brian (曹炳昌先生) (<i>Chairman</i>) Mr. Kwong Che Sing (鄺志成先生) Mr. Ling Siu Tsang (凌肇曾先生)
Remuneration committee	Mr. Ling Siu Tsang (凌肇曾先生) (<i>Chairman</i>) Mr. Sieh Shing Kee (謝城基先生) Mr. Kwong Che Sing (鄺志成先生)

CORPORATE INFORMATION

Nomination committee	Mr. Sieh Shing Kee (謝城基先生) (<i>Chairman</i>) Mr. Ling Siu Tsang (凌肇曾先生) Mr. Kwong Che Sing (鄺志成先生)
Principal share registrar and transfer office in the Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Boardroom Share Registrars (HK) Limited 2103B, 21/F, 148 Electric Road North Point, Hong Kong
Principal bank	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong

INDUSTRY OVERVIEW

This and other sections of this document contain information relating to the industry in which we operate. Certain information and statistics contained in this section have been derived from various official and publicly available sources. In addition, certain information and statistics set forth in this section have been extracted from a market research report commissioned by us and prepared by Frost & Sullivan, and independent market research agency. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect of that any fact has been omitted that would render such information or statistics false or misleading in any material respect. However, such information and statistics have not been independently verified by us, the Sponsor, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriter, our or their respective directors and officers or any other parties involved in the listing (which, for the purpose of this paragraph, excludes Frost & Sullivan). No representation is given as to the accuracy or completeness of such information and statistics.

SOURCE AND RELIABILITY OF INFORMATION

Our Group commissioned Frost & Sullivan, an independent market search company to conduct an analysis of, and to report on, the slope works industry in Hong Kong. A total fee of HK\$380,000 was charged by Frost & Sullivan for the preparation of the Frost & Sullivan Report. The Frost & Sullivan Report has been prepared by Frost & Sullivan independent of our Group's influence. Except as otherwise noted, the information and statistics set forth in this section have been extracted from the Frost & Sullivan Report. The payment of such amount was not conditional on our Group's successful listing or on the results of the Frost & Sullivan Report.

Frost & Sullivan is an independent global consulting firm founded in 1961, and offers industry research, market strategies and provides growth consulting and corporate training on a variety of industries.

The Frost & Sullivan Report includes information on the slope works industry in Hong Kong. The information contained in the Frost & Sullivan Report is derived by means of data and intelligence gathering which include: (i) desktop research; and (ii) primary research, including interviews with key stakeholders including but not limited to slope works service providers and industry experts in Hong Kong.

Information gathered by Frost & Sullivan has been analysed, assessed and validated using Frost & Sullivan in-house analysis models and techniques. According to Frost & Sullivan, this methodology ensures a full circle and multilevel information sourcing process, where information gathered can be cross-referenced to ensure accuracy. All statistics are based on information available as at the date of Frost & Sullivan Report. Other sources of information, including government, trade association or market place participants, may have provided some of the information on which the analysis or data is based.

Frost & Sullivan developed its estimates or forecast on the following principal bases and assumptions: (i) it is assumed that the global economy remains a steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or natural disaster to affect the demand and supply of the slope works industry in Hong Kong during the forecast period.

CONSTRUCTION INDUSTRY OVERVIEW

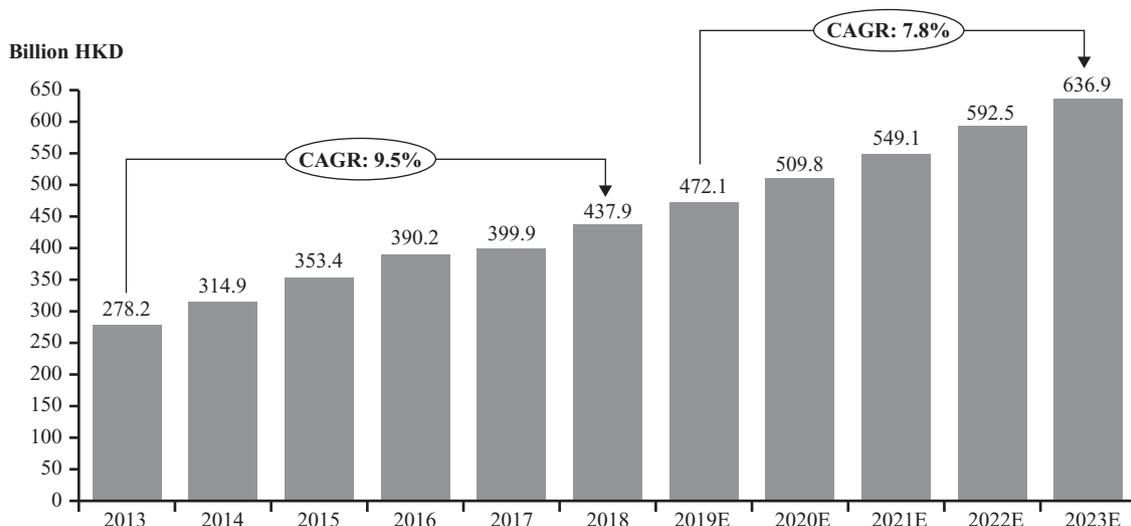
The construction industry in Hong Kong accounted for approximately 13.0% to 15.5% of the GDP of Hong Kong from 2013 to 2018. According to Census and Statistics Department of Hong Kong, the gross value of construction works performed in Hong Kong increased from approximately HK\$278.2 billion in 2013 to approximately HK\$437.9 billion in 2018, representing a CAGR of 9.5%. The growth was primarily driven by the increase in construction activities for key infrastructure and property development projects, namely the revitalisation of ageing buildings, rising residential supply, and the new towns development. Given the continuous investment in the infrastructure projects in Hong Kong, including the improvement of the buildings and facilities and construction of new buildings, the pace of growth in construction works is expected to be maintained, which in turn lead to an increase

INDUSTRY OVERVIEW

in gross value of construction works performed. The gross value of construction works performed in Hong Kong is expected to grow steadily at a CAGR of 7.8% during 2019 to 2023.

Construction projects in Hong Kong can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects commissioned by the Government or Government-related organizations while private sector projects refer to projects commissioned by individuals, property developers, property owners and main contractors who are engaged in property development. Public sector projects in Hong Kong are generally initiated by the CEDD, Lands Department, Housing Authority, Highways Department and Water Supplies Department.

Gross Value of Construction Works Performed and to be Performed (Hong Kong), 2013-2023E



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

SLOPE WORKS INDUSTRY OVERVIEW

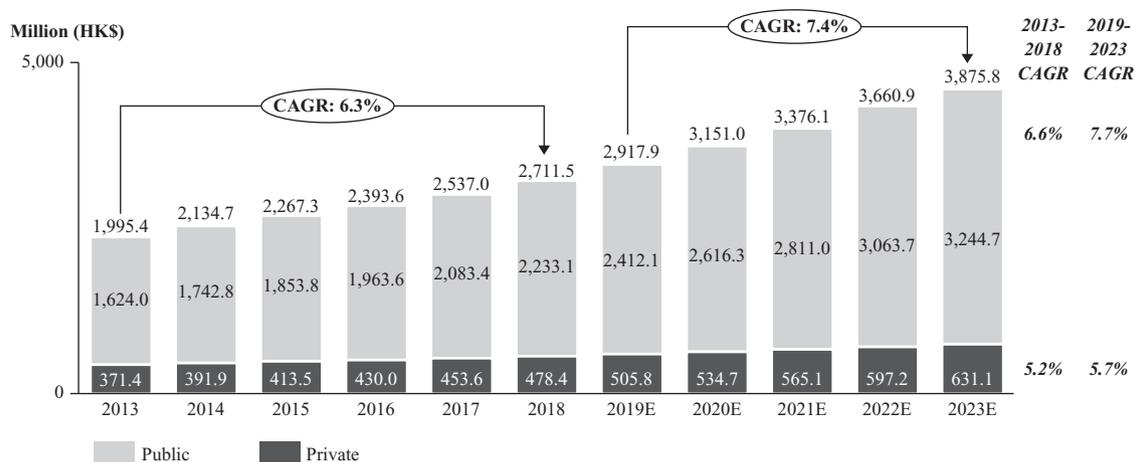
The value chain of Hong Kong slope works market consists of upstream government department and property developers, who are the owners of slopes, midstream engineering consultancies and contractors, and downstream raw material and equipment suppliers. Government departments, such as Geotechnical Engineering Office (“GEO”) conduct regular studies on every slopes around Hong Kong under Landslip Prevention and Mitigation Programme (“LPMitP”) and invite tenders from the engineering consultancies and slope works contractors if there are necessary landslip prevention and mitigation works to be carried out. On the other hand, Building Department is responsible for taking statutory actions against private slope owners in order to maintain the safety of the privately-owned slopes. In general, GEO first engages engineering consultants in the landslip prevention and mitigation studies.

Engineering consultants are mainly engaged in (i) conducting investigation and feasibility studies; (ii) conducting engineering designs and planning; (iii) construction supervision for slopes; (iv) assisting clients in consulting and obtaining consents or approvals from relevant authorities for their projects; and (v) inspecting and certifying the construction works undertaken by clients. Contractors conduct execution works with engineering consultants. In addition, contractors may also employ external-consultants for additional engineering design and other related services. Contractors generally engage sub-contractors with specialist licenses or specialties in certain aspects, including slope works, to carry out a portion of site works under their contracts. The criteria for selecting contractors are mainly based on the track records, business relationship and capital requirements. Slope works subcontractors are responsible for the sourcing of suitable raw materials and equipment for their slope works from the raw material and equipment suppliers.

INDUSTRY OVERVIEW

The revenue of slope works increased from approximately HK\$1,995.4 million in 2013 to approximately HK\$2,711.5 million in 2018, at CAGR of 6.3%. The estimated revenue of slope works in public sector recorded an increase from HK\$1,624.0 million in 2013 to HK\$2,233.1 million in 2018, at a CAGR of 6.6%. During the same period, the revenue in private sector increased from HK\$371.4 million in 2013 to HK\$ 478.4 million in 2018, representing a CAGR of 5.2%. Along with the rising safety standard for man-made slope and natural hillsides, the demand for slope works is expected to increase in the future. Hence, the estimated revenue of slope works in Hong Kong is forecasted to experience the growth from HK\$ 2,917.9 million in 2019 to HK\$ 3,875.8 million in 2023, at a CAGR of 7.4%.

Revenue/Estimated Revenue of Slope Works by Public and Private Sector (Hong Kong), 2013-2023E



Source: Frost & Sullivan

Slope works includes the maintenance, repair and construction of slopes. In the provision of slope works services, the soil nailing method which involves drilling holes on the slope, driving steel nails into the holes, and grouting into the holes is generally employed to stabilise the slope. Slope works are generally associated with other structural works and refurbishment works. Apart from soil nailing, other common measures are generally carried out, such as vegetation surface protection, surface and subsurface drainage installation, in order to protect the slope from collapsing. Slopes works correlate to the construction industry as it is the subset of demolition and site preparation, which is performed in the buildings and infrastructure development.

The slope works projects in public sector are initiated by various Government departments, including the Agriculture, Fisheries and Conservation Department, Lands Department, Water Supplies Department, Highways Department, Architectural Services Department and Civil Engineering and Development Department. The main criteria for contractor's pre-qualification and bid evaluation include financial soundness, technical ability, management capability, health and safety, and reputation.

The following table sets forth the selected slope works projects in the public sector in Hong Kong from 2017 to 2018 that only contractors who are registered on the list of Approved Suppliers of Materials and Specialist Contractors for Public Works under the category of Landslip Prevention, Remedial Works to Slopes/Retaining Walls are eligible to tender directly from the Government:

Selected Slope Works Projects in the Public Sector in Hong Kong from 2017 to 2018

INDUSTRY OVERVIEW

	Number of projects available for tenders	Total contract sum (HK\$' Million)
2017	23	2,104.6
2018	21	1,377.0

Source: Frost & Sullivan

In compiling and preparing the forecasted figures of the gross value of construction works performed and revenue of slope works in Hong Kong, Frost & Sullivan assumed that (i) housing supply will continue rising and (ii) the pipeline of construction projects, particularly the projects under LPMitP, is likely to be stable over the forecast period from 2019 to 2023.

The gross value of construction works from 2013 to 2018 performed in Hong Kong are actual figures published by the Census and Statistics Department and are used as the reference for the estimation of the gross value of construction works to be performed and revenue of slope works in Hong Kong.

According to the Task Force on Land Supply, there will be more than 380,000 of public and private residential units supplied in the coming five to ten years locally in order to achieve the medium- and long-term demand for urban development needs. Accordingly, the continuous supply of residential buildings will support the growth of construction market and slope works market in Hong Kong for the coming years.

Below sets out the forthcoming project summary under LPMitP in 2018 and 2019:

Award Year	Contract Title	Description	Contract Sum (HK\$ million)
2018	Landslip Prevention and Mitigation Programme, 2012, Package D, Landslip Prevention and Mitigation Works in Lantau Island	The works include upgrading of 7 government slopes and retaining walls and natural terrain mitigation works to 6 natural hillside catchments in Lantau Island.	98
2018	Landslip Prevention and Mitigation Programme, 2012, Package C, Landslip Prevention and Mitigation Works in Lantau and Hong Kong Island	The works include upgrading of 10 government slopes and retaining walls and natural terrain mitigation works to 24 natural hillside catchments in Lantau Island and Hong Kong Island.	113.9
2018	Landslip Prevention and Mitigation Programme, 2014, Package H, Landslip Prevention and Mitigation Works	The works include upgrading of 12 government slopes and retaining walls and natural terrain mitigation works to 19 natural hillside catchments in Kowloon, New Territories and Lantau Island.	115.6
2018	Landslip Prevention and Mitigation Programme, 2013, Package F, Landslip Prevention and Mitigation Works (Batch 2)	The works include upgrading of some 5 government slopes and retaining walls and natural terrain mitigation works to some 13 natural hillside catchments in Hong Kong.	42.8

INDUSTRY OVERVIEW

Award Year	Contract Title	Description	Contract Sum (HK\$ million)
2018	Landslip Prevention and Mitigation Programme, 2016, Package C, Ground Investigation for Landslip Prevention and Mitigation Works	The works include ground investigation works and laboratory testing on soil and rock samples obtained from the ground investigation works for some 55 government slopes and retaining walls, and some 3 natural terrain study areas in Hong Kong Island West, Kowloon West, New Territories West and Outlying Islands.	24.8
2018	Landslip Prevention and Mitigation Programme, 2016, Package D, Ground Investigation for Landslip Prevention and Mitigation Works	The works include ground investigation works and laboratory testing on soil and rock samples obtained from the ground investigation works for some 55 government slopes and retaining wall and some 3 natural terrain study areas in Hong Kong Island East, Kowloon East, New Territories East and Outlying Islands.	23.4
2018	Landslip Prevention and Mitigation Programme, 2014, Package C, Landslip Prevention and Mitigation Works	The works include upgrading of some 4 government slopes and retaining walls and natural terrain mitigation works to some 12 natural hillside catchments in the territory of the Hong Kong Special Administrative Region.	110.9
2018	Landslip Prevention and Mitigation Programme, 2013, Package G, Landslip Prevention and Mitigation Works	The works include upgrading of some 10 government slopes and retaining walls and natural terrain mitigation works to some 7 natural hillside catchments in Kowloon, New Territories, Cheung Chau, Lamma Island and Lantau Island.	69
2018	Landslip Prevention and Mitigation Programme, 2018, Package K, Landslip Prevention and Mitigation Works in Hong Kong Island, Kowloon, the New Territories and Outlying Islands	The works include upgrading of some 25 government slopes and retaining walls and natural terrain mitigation works to some 9 natural hillside catchments in Hong Kong Island, Kowloon, the New Territories and Outlying Islands.	84.8
2018	Landslip Prevention and Mitigation Programme, 2016, Package A, Landslip Prevention and Mitigation Works	The works include upgrading of some 25 government slopes and retaining walls in Hong Kong Island, Kowloon and the New Territories.	52
2018	Landslip Prevention and Mitigation Programme, 2016, Package C, Landslip Prevention and Mitigation Works	The works include upgrading of some 27 government slopes and retaining walls and natural terrain mitigation works to some 3 natural hillside catchments in Hong Kong Island, Kowloon, New Territories and Outlying Islands.	100.2
2018	Landslip Prevention and Mitigation Programme, 2016, Package H, Ground Investigation for Landslip Prevention and Mitigation Works	The works include ground investigation works and laboratory testing on soil and rock samples obtained from the ground investigation works for some 12 government slopes and retaining wall and some 2 natural terrain study areas in Kowloon, New Territories and Outlying Islands.	15.6
2018	Landslip Prevention and Mitigation Programme, 2016, Package D, Ground Investigation for Landslip Prevention and Mitigation Works	The works include ground investigation works and laboratory testing on soil and rock samples obtained from the ground investigation works for some 12 government slopes and retaining walls and some 3 natural terrain study areas in Kowloon and New Territories.	9.2

INDUSTRY OVERVIEW

Award Year	Contract Title	Description	Contract Sum (HK\$ million)
2018	Landslip Prevention and Mitigation Programme, 2016, Package B, Landslip Prevention and Mitigation Works	The works include upgrading of some 25 government slopes and retaining walls in Kowloon, New Territories and Outlying Islands.	55.8
2019	Landslip Prevention and Mitigation Programme, 2016, Package D, Landslip Prevention and Mitigation Works	The works include upgrading of some 25 government slopes and retaining walls and natural terrain mitigation works to some 6 natural hillside catchments in Hong Kong Island, Kowloon and New Territories.	81.9
2019	Landslip Prevention and Mitigation Programme, 2016, Package G, Landslip Prevention and Mitigation Works	The works include upgrading of some 12 government slopes and retaining walls and natural terrain mitigation works to some 11 natural hillside catchments in Hong Kong Island, Kowloon and New Territories.	73

Source: Frost & Sullivan

MARKET DRIVERS

The development of slope works industry is closely related to the construction industry as a whole, and the slope works industry is expected to benefit from the following market drivers:

1. Promotion of Landslip Prevention and Mitigation Programme (LPMitP)

The launching of LPMitP by the GEO in 2010 is considered one of the key drivers for the Hong Kong slope works market. LPMitP regularly monitors the situation of all slopes in Hong Kong to mitigate the risks associated with both man-made slopes and natural hillside. Since the launching of LPMitP, GEO has spent about HK\$22.9 billion on landslip prevention and mitigation studies and works; more than 5,550 Government man-made slopes were upgraded, and more than 250 mitigation works for natural hillside had been implemented. Coupled with the increasing population and more buildings sit next to steep slopes, it is expected that the government will put more effort on promotion of LPMitP to ensure the safety of all man-made slope and natural hillside. With the continuous efforts by the Government in this regard to slope safety, the demand for slope works is expected to rise accordingly.

2. Rising housing supply and expansion of urban areas

To address the rising needs of housing, the Government has initiated several schemes and policies to boost the residential housing supply in Hong Kong. As set out in Policy Address 2018, the Government plans to launch “Land Sharing Pilot Scheme” to collaborate with private land owners and release their land for housing development in short to medium term. As set out in the “Lantau Tomorrow Vision”, more than 1,700-hectare of reclaimed land project will be launched in Lantau Island to satisfy the long-term demand for the expansion of urban areas. On the other hand, the sizable long-term land development projects, such as Kwu Tung North/Fanling North, Hung Shui Kiu, and Yuen Long South Development are under progress. As estimated, more than 2,000 hectares of lands will be provided for urban development, including residential buildings. Together with the new town extensions planned in Tung Chung and North East New Territories in the coming years, the comprehensive land development plan in Hong Kong will drive the demand for building construction, which unleash potential business opportunities for the site formation and slope works. In particular, it would give rise to a number of man-made slopes in these areas. As such, the demand for slope construction and maintenance will increase accordingly.

3. Technology advancement in slope engineering

In order to enhance the safety condition of man-made slopes and increase the efficiency of the mitigation measures implemented on natural hillsides, the Hong Kong Government has been continuously working with academia and experienced slope engineering professionals to develop innovative slope work solution. Through the support of the Development Bureau and policy makers, the GEO of the CEDD has developed a

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comprehensive slope safety management system. On the other hand, the market participants in Hong Kong are adopting more advanced technologies and engineering methodologies, such as adoption of wireless tilt and vibration monitoring system, to improve the overall work efficiency and quality, and to cater the changing requirements from the clients, i.e. the Government. Monitoring and early warning is one of the most effective methods toward reduction of disasters induced by landslides and slope instabilities. The developed tilt sensor is able to monitor slope deformation and transfer real time data via wireless network. The warning system with its developed equipment has been deployed in several actual slopes for validation of field performance in Hong Kong. The evolution of slope engineering further facilitates the problem identification, risk distribution examination, and risk strategy formulation in prioritisation and resources allocation. The enhanced landslide risk management expedite the urban development, which in turn increase the demand for slope works.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

The five largest players in the slope works industry in Hong Kong

According to Frost & Sullivan, the slope works market in Hong Kong is highly competitive with the top five players contributing to 40.0% of the entire market in terms of revenue.

The five largest players in the slope works industry in Hong Kong, 2018

Rank	Company	Company types	Estimated revenue (HK\$'million)	Estimated market share (%)
1	Company A	A private Chinese company engaging in construction of industrial, energy, transportation, and municipal works	296.4	10.9
2	Company B	A Hong Kong company listed on Hong Kong Stock Exchange primarily engaged in the slope works in Hong Kong as main contractor	254.7	9.4
3	Company C	A private Chinese company based in Beijing, the PRC and mainly focuses on the contracting of roads, bridges, ports, railways, airports, tunnels, municipal works and dredging works, and water conservancy projects	201.6	7.4
4	Company D	A public Hong Kong company listed on Hong Kong Stock Exchange in 2016 and primarily engaged in slope works construction	193.1	7.1
5	Company E	A private Hong Kong-based company principally engaged in the provision of maintenance and construction works on civil engineering contracts including waterworks engineering, road works and drainage, as well as slope upgrading and maintenance services in Hong Kong	139.8	5.2
		Top five subtotal	1,085.6	40.0
		Others	1,625.9	60.0
		Total	2,711.5	100.0

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Our Group's market share

The revenue of our Group was approximately HK\$111.2 million in 2018, accounting for 4.1% market share in the slope works market in Hong Kong in terms of revenue. According to the Frost & Sullivan Report, our Group ranked the ninth in Hong Kong slope works market in terms of revenue.

Factors of competition

1. Recognition and qualification

In Hong Kong slope works market, recognition and qualification is one of the key factors of competition. Contractors are required to be registered on the List of Approved Specialist Contractors for Public Works from the Development Bureau in order to tender for public slope works projects directly from the Government. The details of the registered contractors, such as works categories and contract value of public works for tendering are shown to the public and potential clients. When construction contractors and private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works which is publicly available on the website of the Development Bureau because such list provides them with assurance on the track record, financial position and the service quality of the registered contractors. Besides, as slope works involve different aspects of technical know-how (including design of foundation and methods of site works), main contractors typically prefer to engage subcontractors who possess strong academic background and qualifications in the engineering field for handling the technical and contract administration of the projects. The approved contractors are recognised by its proven project reference in building industry and experience in managing related projects, which enables the company to enjoy an edge in the Industry. In addition, slope works contractors obtaining international recognized certificates including ISO9001, OHSAS18001 and ISO14001 regarding to quality system management, occupational health and environmental management are more competitive in the market.

2. Track record and quality of works

Slope works contractors are required to carry out high quality of work within tight schedule and budget. Any slight defects of the finished works may potentially lead to catastrophic consequences, i.e. landslide, or require further improvement works to rectify the issue. Furthermore, the potential clients, including the Government and main contractors, would consider the factors of quality of works, timeliness of project delivery as well as capability of meeting safety and environmental requirements as part of the assessment criteria for tender awards. As a result, contractors with better performance on these criteria can stand out from the market. Ongoing investment in machinery and construction equipment enables the companies to access and deploy more machinery to the slope works projects, which in turn improves the execution effectiveness and efficiency. Slope works contractors with sufficient level of machinery and working capital, are therefore preferred by the clients.

3. Relationship with stakeholders

In general, the existing slope works contractors have already established business relationship with various stakeholders, including the engineering consultants, main contractors, sub-contractors and raw-materials suppliers. In addition, the majority of slope works projects are public works, therefore having an in-depth understanding of the work requirements from the Government is invaluable to the market. On the other hand, some of the slope works contractors are capable of providing design-and-build services, such as advisory of engineering design, allocation of resources and final project execution, as well as employment of external engineering consultants.

Entry barriers

1. Licensing requirement

Licensing is considered to be one of the key entry barriers for the slope works market in Hong Kong. In order to be eligible for tendering public slope works directly from the Government, contractors are required to register on the List of Approved Specialist Contractors for Public Works under the category of "Landslip preventive/remedial works to slopes retaining walls", which set certain criterion in the area of financial, technical and management. For subcontractors engaged in public slope works projects commissioned by certain Government departments and statutory bodies, they are required to be registered

INDUSTRY OVERVIEW

under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) at the Construction Industry Council. For undertaking slope work projects from private sectors, contractors are also required to be registered on the list of “Register of Specialist Contractors (sub-register of Site Formation Works category)” from Building Department which requires highly experienced slope works professional to be part of the management team. As a result, market entrants may find it difficult to obtain these licenses and to carry out slope works services in Hong Kong.

Public slope works projects in Hong Kong are generally awarded to certain sizeable construction contractors. According to Development Bureau, there are 39 approved contractors who are eligible to tender for the public works of landslip preventive and remedial works to slopes or retaining walls. According to Building Department, there are 195 contractors registered on the list of “Register of Specialist Contractors” with the sub-register of Site Formation Works category in Buildings Department of Hong Kong.

2. Capital requirement

A substantial amount of capitals is required to acquire various types of construction machinery for slope works such as drilling machines, excavators, air-compressors, concrete pumps, on top of other cost items such as procurement and labour cost. On the other hand, contractors are required to have sufficient capital reserve during the early stage of construction works as the payment is generally divided into several settlements and being paid with respect to the progress of works. In particular, slope works contractors are generally required by new customers, with whom they have limited past business relationship, to take out performance guarantees. The performance guarantee requirement is generally adopted by contractors to safeguard the performance and service quality of their new subcontractors. Furthermore, contractors are required to meet certain financial criterion for the admission and retention on the List of Approved Specialist Contractors for Public Works. According to the Development Bureau, to remain on the List, the contractors are required to (i) maintain a minimum employed capital of HK\$8,600,000; and (ii) have a minimum working capital of either (a) HK\$8,600,000 if there are no outstanding contracts; or (b) the higher of HK\$8,600,000 or 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors. Otherwise, they could not be eligible to tender for such sizable slope works from the Government.

3. Proven track record and project experience

Proven track record and technical expertise are essential for contractors to undertake slope works project in Hong Kong. Other than project fee and business relationship, relevant track record and experience is the key selection criteria for main contractors. On the other hand, proven track record is required for advancement of registered contractors to higher level of work group with eligibility of tendering for slope works projects of higher contract value. Hence, new entrants without proven track record are hindered from undertaking sizeable projects.

Potential Challenges

Slope works contractors are undergoing the following potential challenges in Hong Kong:

1. Shortage of skillful workers

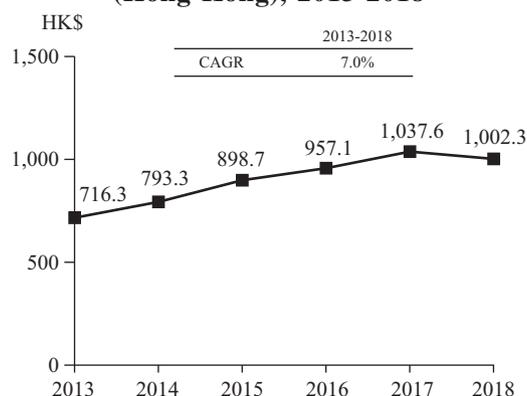
The Hong Kong construction industry has in general been facing the problem of labour shortage and aging workforce. According to the statistics of the Construction Industry Council, around 43.8% of the 482,900 registered construction workers as at 31 March 2019, were aged over 50 whereas only about 14.7% were aged below 30. According to the Manpower Forecasting Model Report published by Construction Industry Council in 2017, it is estimated that there will be an excess demand of workers for about 5,000 to 10,000 of overall construction manpower during 2018 to 2022. Besides, attributable to the long working hours and challenging working conditions in construction sites, market participants may find it difficult to attract younger generation to participate in the industry. Therefore, the lack of new entrance of competent workers and inadequate supply of labour force may result in project delays and pose as a potential market threat in the Hong Kong slope works market.

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2. Rising labour cost

The slope works market in Hong Kong is generally considered as labour-intensive and it has seen an increasing demand for construction workers. According to the Census and Statistics Department of Hong Kong, the average wages of construction workers have increased at a CAGR of 7.0% from approximately HK\$716.3 per day in 2013 to approximately HK\$1,002.3 per day in 2018. It is expected that the insufficient supply of particular trade workers will further heighten the labour costs in the slope works market. Moreover, in order to attract and retain high-calibre workers, contractors are required to pay a higher salary which may further impose as a financial burden to existing market participants. As a result, the escalating labour wages may entail to an increase in operation costs and affect the business performance of contractors.

**Average Daily Wages of General Workers
(Hong Kong), 2013-2018**



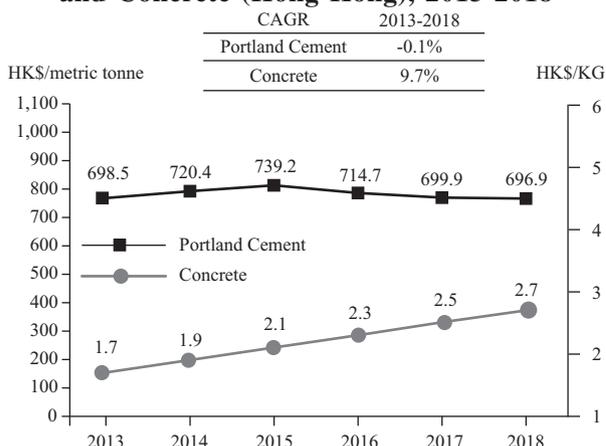
Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

3. Fluctuating cost of materials in Hong Kong

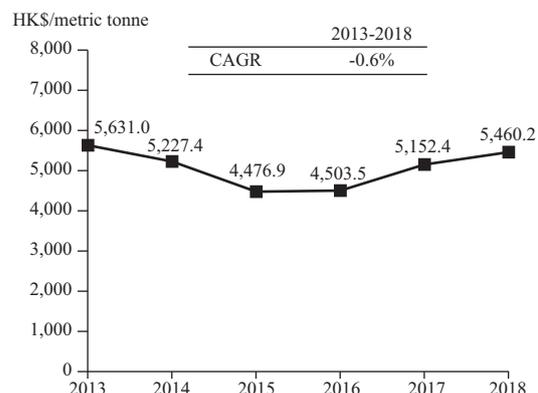
Portland cement, concrete and steel reinforcements are the common construction materials used when carrying out slope works in Hong Kong. During 2013 to 2018, the average price of steel reinforcements has decreased from approximately HK\$5,631.0 per metric tonne to approximately HK\$4,503.5 per metric tonne due to oversupply of steel in the PRC from 2013 to 2016. On the other hand, the average price of Portland cement remain broadly constant, where it changes from approximately HK\$698.5 per metric tonne to approximately HK\$696.9 per metric tonne between 2013 and 2018 primarily due to the stable demand for slope works and other construction works. However, the average price of concrete has increased from HK\$1.7 per kilogram in 2013 to HK\$2.7 per kilogram in 2018, representing a CAGR of 9.7% from 2013 to 2018. Such increase is driven by the rising import price from PRC, where the government campaign to limit the production of some heavy industries such as concrete, to reduce air pollution. With the continued development of slope works and other construction works in Hong Kong, the average prices of concrete and Portland cement are forecasted to increase in the future.

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Average Price of Portland Cement and Concrete (Hong Kong), 2013-2018



Average Price of Steel Reinforcements (Hong Kong), 2013-2018



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

Note:

- (i) Average price of steel reinforcements includes both mild steel and high tensile steel.
- (ii) Latest available figures recorded in July 2019.

4. Change in government policies

The development of slope works industry in Hong Kong is closely associated with the economic cycle and government policies. Specifically, current land planning policies are more residential-oriented so as to cope with increasing housing needs and the construction of residential flats is the key focus among the property developers in Hong Kong. The speed of urban renewal and land supply shows a positive correlation with the needs for construction works. For example, changes in the LPMitP may impact the demand for slope works in Hong Kong.

REGULATORY OVERVIEW

This section provides a summary of the material regulations directly relevant to our current and future businesses and how these regulations will affect our business operations and future developments. As this is a summary, it does not contain a detailed analysis of the regulations which are relevant to our business and operations. Prospective investors should not place undue reliance on the statements under this section and should consult their own professional advisers about the regulations referred to under this section.

LABOUR, HEALTH AND SAFETY

As we mainly undertook slope works in the role of subcontractor during the Track Record Period, we are subject to the laws and regulations in relation to construction works, labour, health and safety.

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

Construction Workers Registration Ordinance requires construction workers to be registered for carrying out construction work on a construction site.

Under the Construction Workers Registration Ordinance, “construction work” means, among other things, any building operation involved in preparing for any operation such as the addition, renewal, alteration, repair, dismantling or demolition of any specified structure that involves the structure of the specified structure or any other specified structure. “Construction site” means, subject to certain exceptions, a place where construction work is, or is to be, carried out. Under section 40 of the Construction Workers Registration Ordinance, no person shall be registered as a registered construction worker unless the Registrar of Construction Workers is satisfied, among other things, that the person has attended the relevant construction work-related safety training course. Further, under section 44 of the Construction Workers Registration Ordinance, the Registrar of Construction Workers shall not renew the registration of a person unless the Registrar of Construction Workers is satisfied that, among other things, (i) the person has attended the relevant construction work-related safety training course; and (ii) if the registration will, on the date of expiry, have been in effect for not less than two years, the person has attended and completed, during the period of one year immediately before the date of application for renewal of the registration, such development courses applicable to his registration as the Construction Industry Council may specify.

The Construction Workers Registration Ordinance also contains a “designated workers for designated skills” provision, which provides that only registered skilled or semi-skilled workers of designated trade divisions are permitted to carry out construction works on construction sites relating to those trade divisions independently.

Unregistered skilled or semi-skilled workers are only allowed to carry out construction works of designated trade divisions (i) under the instruction and supervision of registered skilled or semi-skilled workers of relevant designated trade division(s); (ii) in proposed emergency works (i.e. construction works which are made or maintained consequential upon the occurrence of emergency incidents); or (iii) in small-scale construction works (e.g. value of works not exceeding HK\$100,000).

REGULATORY OVERVIEW

Stage 1 of the “designated workers for designated skills” provision, of which “designated works” will include construction, re-construction, addition, alternation and building services works, has been implemented with immediate effect from 1 April 2017.

Upon implementation of stage 1 of the “designated workers for designated skills” provision pursuant to the Construction Workers Registration Ordinance, registered skilled and semi-skilled workers for designated trade divisions shall be included as registered construction workers of the Register of Construction Workers, and accordingly, subcontractors of construction sites are required to employ only registered skilled and semi-skilled workers for designated trade divisions to carry out construction works on construction sites in relation to those trade divisions independently.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

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

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in the industrial undertakings. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor of an industrial undertaking, including factories, construction work, catering establishments, cargo and container handling undertakings, repair workshops and other industrial workplaces, to ensure, 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:

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

REGULATORY OVERVIEW

Section 6BA(5) of the Factories and Industrial Undertakings Ordinance also provides that since 1 May 2001 every proprietor shall not employ at the undertaking a relevant person who has not been issued a relevant safety training certificate or whose relevant certificate has expired. A proprietor who contravenes this section commits an offence and is liable to a fine of HK\$50,000.

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 construction, 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 constitutes 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.

During the Track Record Period and up to the latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

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 attending to the following:

- providing and maintaining plant and systems of work that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- as regards any workplace under the employer’s control:
 - provision and maintenance of the workplace in a condition that is safe and without risks to health; and
 - provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;
- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- providing and maintaining a working environment for the employees that is safe and without risks to health.

REGULATORY OVERVIEW

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

The Commission for Labour may also issue an improvement notice against non-compliance of the Occupational Safety and Health 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 to the employees. Failure to comply with an improvement notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and imprisonment of up to 12 months and failure to comply with a suspension notice without reasonable excuse constitutes an offence punishable by a fine of HK\$500,000 and imprisonment of up to 12 months, and to a further fine of \$50,000 for each day or part of a day during which the employer knowingly and intentionally continues the non-compliance or contravention.

We have set up an occupational health and safety management system to promote safe working practice among all employees and to prevent the occurrence of accidents through safety inspections. For details, please refer to the paragraph headed “Business – Occupational health and work safety” in this prospectus.

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 sets out 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 of the Employees’ Compensation Ordinance, an employer must notify the Commissioner for Labour of any work accident by submitting Form 2 (within 14 days for general work accidents and within 7 days for fatal accidents), irrespective of whether the accident gives rise to any liability to pay compensation. If the happening of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of 7 or 14 days (as the case may be) then such notice shall be given not later than 7 days or, as may be appropriate, 14 days after the happening of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

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

According to section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

Section 40(1B) of the Employees' Compensation Ordinance provides that where a principal 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 his subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a principal contractor has taken out a policy of insurance under section 40(1B) of the Employees' Compensation Ordinance, the principal 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 of HK\$100,000 and to imprisonment for two years; and on summary conviction to a fine of HK\$100,000 and to imprisonment for one year.

For our insurance coverage in this connection, please refer to the paragraph headed "Business – Insurance" in this prospectus. For the information of employees' compensation claims and common law personal injury claims experienced by our Group during the Track Record Period and up to the Latest Practicable Date, please refer to the paragraph headed "Business – Litigations and claims" in this prospectus.

Limitation Ordinance (Chapter 347 of the Laws of Hong Kong)

Under the Limitation Ordinance, the time limit for an applicant to commence common law claims for personal injuries is three years from the date on which the cause of action accrued.

For information regarding the potential common law claims for personal injuries which were within the three year period and which might be brought against our Group as at the Latest Practicable Date, please refer to the paragraph headed "Business – Litigations and claims" of this prospectus.

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

A principal 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 principal contractor or a principal 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 principal contractor and superior subcontractor(s) (where applicable) shall be limited to:

- a) the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and
- b) the wages due to such an employee for two months without any deductions (such months shall be the first two months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from subcontractor must serve a notice in writing on the principal contractor within 60 days (or such other additional period not exceeding 90 days as the Commissioner for Labour may permit) after the date on which the wages become due. A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of the subcontractor if that employee fails to serve a notice on the principal contractor.

Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware.

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

Pursuant to section 43F of the Employment Ordinance, if a principal contractor or superior subcontractor pays to an employee any wages under section 43C of the Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior subcontractor, as the case may be. The principal contractor or superior subcontractor who pays an employee any wages under section 43C of the Employment Ordinance may either (1) claim contribution from every superior subcontractor to the employee's employer or from the principal contractor and every other such superior subcontractor as the case may be, or (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.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

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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.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

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

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

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

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:

- a) foundation and associated works;
- b) civil engineering and associated works;
- c) demolition and structural alteration works;

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- d) refurbishment and maintenance works;
- e) general building construction works;
- f) fire services, mechanical, electrical and associated works;
- g) gas, plumbing, drainage and associated works; and
- h) 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.

As our slope works projects involve the employment of “casual workers”, the Industry scheme is applicable to our business and practice.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

ENVIRONMENTAL PROTECTION

We are also subject to the laws and regulations in connection with environmental protection as our slope works projects involve operation of machinery.

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 carrying out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

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We have established an environmental management system in conformance with ISO 14001:2015 international standard to comply with the regulation in relation to air pollution control. For details, please refer to the paragraph headed “Business – Environmental compliance” in this prospectus.

Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)

Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (the “**NRMM Regulation**”) provides for the control of emission from non-road mobile machinery.

According to the NRMM Regulation, non-road mobile machinery, unless approved or exempted, are required to comply with the prescribed emission standards. All regulated machines sold or lease for use in Hong Kong must be approved or exempted with a proper label in a prescribed format issued by the Environmental Protection Department. Starting from 1 December 2015, only approved or exempted non-road mobile machinery with a proper label are allowed to be used in specified activities and locations including construction sites. The Environmental Protection Department may on application, approve a regulated machine if it is satisfied that the emission from the machine conforms to the prescribed emission standard.

In addition, the Environmental Protection Department may, on application, exempt a regulated machine or non-road vehicle from the application of section 4(1), 5(1) or 6(1) of the NRMM Regulation if it is satisfied that the machine or vehicle was in Hong Kong at any time on or before 30 November 2015.

According to the NRMM Regulation, unless the machine is approved, a person who uses or causes to be used a regulated machine in a specified activity commits an offence and is liable on conviction to a fine of up to HK\$200,000.00 and to imprisonment for six months. Any person who uses or causes to be used in a specified activity a regulated machine that is approved or exempted without ensuring that the label complies with the requirements specified in Schedule 2 of the NRMM Regulation and is painted or affixed on the machine and properly maintained in accordance with the requirements specified in Schedule 2 of the NRMM Regulation or without ensuring that the information set out in the label conforms with the information provided to the authority in support of the application for the approval or exemption of the machine commits an offence and is liable on conviction to a fine of up to HK\$50,000 and to imprisonment for three months.

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On 8 February 2015, the Development Bureau issued a Technical Circular (Works) No. 1/2015 in relation to the implementation plan to phase out the use of exempted non-road mobile machineries for four types of non-road mobile machineries, namely generators, air compressors, excavators and crawler cranes in new capital works contracts of public work including design and build contracts, with an estimated contract value exceeding HK\$200 million as follows:

	Phase 1 Tenders to be invited from 1 June 2015 to 31 May 2017	Phase 2 Tenders to be invited from 1 June 2017 to 31 May 2019	Phase 3 Tenders to be invited from 1 June 2019 onwards
Generators		No exempted NRMM is allowed	
Air Compressors		No exempted NRMM is allowed	
Excavators	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed
Crawler Cranes	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed

Note: Notwithstanding the above, exempted NRMM may still be permitted at the discretion of the Architect/Engineer if there is no feasible alternative.

As at the Latest Practicable Date, our Group owned two Regulated Machines (being air compressors), which were approved by the Environmental Protection Department under the NRMM Regulation. In relation to the government contracts of public work entered into between the Government and our main contractor(s) during the Track Record Period, the estimated contract value of all such government contracts did not exceed HK\$200 million, save for one contract which we did not use our Regulated Machines at all. As such, we have complied with the NRMM Regulation.

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

The Noise Control Ordinance provides statutory controls, among others, to restrict and reduce the nuisance caused by environmental noise from construction, industrial and commercial activities.

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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 (including Sunday), unless prior approval has 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. For instance, hand-held percussive breakers 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 second or 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.

We have established an environmental management system in conformance with ISO 14001:2015 international standard to comply with the regulation in relation to noise control. For details, please refer to the paragraph headed “Business – Environmental compliance” in this prospectus.

CONTRACTOR LICENSING REGIME AND OPERATION

Contractor Licensing Regime

Under the current contractors registration system in Hong Kong, the Building Authority keeps (a) a register of general building contractors who are qualified to perform the duties of a general building contractor; (b) a register of specialist contractors who are qualified to carry out specialised works (such as demolition works, foundation works, ground investigation works, site formation works and ventilation works) specified in the category in the sub-register in which they are entered; and (c) a register or provisional register of minor works contractors who are qualified to carry out minor works (such as alteration and addition works, repair works, etc.) belonging to the class, type and item specified in the register in which they are registered.

Subcontractors, including foundation and substructure construction subcontractors, in Hong Kong may apply for registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) managed by the Construction Industry Council.

With effect from 1 April 2019, the Subcontractor Registration Scheme has been renamed as the Registered Specialist Trade Contractors Scheme. All subcontractors who are registered under the seven trades namely Demolition, Concreting Formwork, Reinforcement Bar Fixing, Concreting, Scaffolding, Curtain Wall and Erection of Concrete Precast

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Component of the Subcontractor Registration Scheme have automatically become Registered Specialist Trade Contractors under the Registered Specialist Trade Contractors Scheme, whilst all subcontractors who are registered under the remaining trades of the Subcontractor Registration Scheme have been retained as Registered Subcontractors under Registered Specialist Trade Contractors Scheme, and no application is required. As such, with effect from 1 April 2019, our operating subsidiary, A-City Workshop, has become a Registered Specialist Trade Contractor under the Registered Specialist Trade Contractors Scheme in Reinforcement Bar Fixing, Concreting Formwork and Concreting; and a Registered Subcontractor under the Registered Specialist Trade Contractors Scheme in General Civil Works with Specialty of Earthwork and Geotechnical Works.

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 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) his/her 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.

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) 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

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- 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.

Our operating subsidiary, A-City Workshop, has been registered with the Buildings Department as a Registered Specialist Contractor under the category “site formation works” since 8 June 2017 and a Registered General Building Contractor since 15 May 2017. A-City Workshop has also been registered under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme) since February 2013.

Our executive Director, Mr. Ho is appointed as the Authorised Signatory and the Technical Director to act for the purpose of the Buildings Ordinance for A-City Workshop. For details of the biography of Mr. Ho, please refer to the paragraph headed “Directors and senior management – Directors – Executive Directors” in this prospectus.

In the event that Mr. Ho is otherwise unavailable, we have certain succession and contingency plan in place. For details of the succession and contingency plan, please refer to the paragraph headed “Business – Licences and registrations” in this prospectus.

In addition to the above key personnel, the applicant is also required to demonstrate that it has employed appropriate qualified staff members to assist the applicant and the above key personnel to execute, manage and supervise the building works and street works. For registration as a registered specialist contractor, the applicant must satisfy the Buildings Department that it has the necessary experience and, where appropriate, professional and academic qualifications, to undertake work in the specialist category and should also demonstrate that it has the access to engaging qualified persons to carry out the relevant specialised duties.

The Buildings Department imposes specific requirements on the directors of a contractor and the person appointed by the contractor to act for it for the purposes of the Buildings Ordinance.

Private sector slope works projects in Hong Kong

Private sector slope works are projects launched by private developers as well as any other entities not being Government departments and statutory bodies.

Pursuant to section 9 of the Buildings Ordinance, a contractor who carries out private sector slope works is required to register with the Building Authority as a Registered Specialist Contractor under the sub-register of “site formation works” category, or appoint a Registered Specialist Contractor under the relevant category to carry out the specialised works for him.

A Registered Specialist Contractor appointed to carry out specialised works is required to, among others, provide continuous supervision to the carrying out of the works in accordance with his supervision plan and to notify the Building Authority of any

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contravention of the regulations that would result from carrying out the works shown in the plan approved by the Building Authority for the works, in accordance with section 9 of the Buildings Ordinance.

The requirements mentioned above are the basic requirements for undertaking private sector slope 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.

For FY2017, FY2018 and the five months ended 31 May 2019, revenue attributable to private sector amounted to approximately 4.8%, 4.7% and 21.8% of our total revenue, respectively. During the Track Record Period, we had undertaken a private sector project as main contractor in the role of Registered Specialist Contractor under the category of “site formation works” for a church in Ap Lei Chau, Hong Kong.

Public sector slope works projects in Hong Kong

For public sector projects, contractors responsible for landslip prevention and mitigation and/or land piling works are, among others, required to be listed under List of Approved Specialist Contractors for Public Works maintained by the WBDB, and with the Buildings Department as Registered Specialist Contractors under the sub-register category of “site formation works”. For details of the List of Approval Specialist Contractors for Public Works, please refer to the paragraph headed “Requirement for the application of registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works” below in this section.

Generally speaking, as long as the principal contractor holds all the required registrations for the project, the subcontractors are not required to hold the same registrations as the main contractors in public projects. However, being registered on the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) at the Construction Industry Council is required for subcontractors to participate in public projects commissioned by certain Government departments and statutory bodies, including the Airport Authority, Development Bureau and the Housing Authority.

Pursuant to a technical circular issued by the WBDB (the Environment, Transport and Works Bureau at the time of issue of the technical circular) on 14 June 2004, all capital works and maintenance works contracts of the government with tenders to be invited on or after 15 August 2004 shall require the contractor to employ all subcontractors (whether nominated, specialist or domestic) that are registered from the respective trades available under the Primary Register of the Voluntary Subcontractor Registration Scheme introduced by the Provisional Construction Industry Co-ordination Board whose work was taken over by the Construction Industry Council in February 2007.

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Requirement for the application of registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works

Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, the admission and retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria.

A contractor's status in a particular group will be either probationary or confirmed. Probationary contractors are limited in the number and value of contracts for which they are eligible to tender and to be awarded.

In order to apply for the registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of "Landslip Preventive/Remedial works to Slopes/Retaining Walls" ("LPM"), the applicant has to meet, among others, the following financial criteria and submit certain financial information for the assessment:–

- The applicant should generally possess at least a positive capital value;
- The applicant is required to maintain minimum employed capital of HK\$8,600,000 and minimum working capital of HK\$8,600,000;
- If the applicant has outstanding contracts in hand, its working capital for retention purpose should amount to 10% of the combined annual value of uncompleted works on outstanding contracts or the minimum working capital specified above, whichever is higher (if the applicant has both employed and working capital not less than HK\$4.2 million respectively).

Further, the applicant has to meet the minimum technical and management criteria regarding the following areas in order to enter on probation:–

- Job experience
- Registration with relevant authorities in Hong Kong including registration with the Buildings Department as a Registered Specialist Contractor under the sub-register category of "site formation works"
- Top management
- Professional staff
- Technical staff
- Safety staff
- Plant and equipment

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- Office/workshop facilities
- Training facilities
- Others

Contractors included in the List of Approved Specialist Contractors for Public Works under the category of LPM but have not yet achieved confirmation status (i.e. a probationary contractor) may take on not more than two government contracts tendered under the category of LPM with total outstanding value of works of not greater than HK\$114 million.

Our Group intends to apply for registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of LPM as one of our business strategies. For details, please refer to the sections headed “Business – Business strategies” and “Future plans and use of proceeds” in this prospectus.

Regulatory actions under the Buildings Ordinance

Under sections 7, 13 and 40 of the Buildings Ordinance, a Registered Specialist Contractor will be subject to prosecution or disciplinary action where an offence is committed or when matters justifying the taking of disciplinary action arise, as discussed in the following paragraphs.

Disciplinary proceedings

Pursuant to sections 7 and 13 of the Buildings Ordinance, the matters justifying the taking of disciplinary action include, amongst others, being convicted by any court of an offence related to carrying out his professional duties, being negligent or having misconducted himself in a professional way, having permitted a material deviation from a supervision plan for which he is responsible without reasonable cause and having drawn up a supervision plan that does not comply with the material requirements of the Buildings Ordinance, etc.

The disciplinary board may, amongst others, order that the name of such person or the name of the director, officer or person (in the case of a Registered Specialist Contractor) be removed from the relevant register, either permanently or for such period as the disciplinary board thinks fit; or order such person or the director, officer or person (in the case of a Registered Specialist Contractor) be fined.

Prosecution

In addition to disciplinary proceedings, a Registered Specialist Contractor will, pursuant to section 40 of the Buildings Ordinance, be subject to prosecution where an offence is committed. Set out below are some of the offences under section 40 of the Buildings Ordinance.

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Pursuant to section 40(2A) of the Buildings Ordinance, a Registered Specialist Contractor directly concerned with any prescribed inspection or building works or street works shall not:

- a) permit or authorise to be incorporated in or used in the carrying out of any such inspection or works any materials which are defective or do not comply with the provisions of the Buildings Ordinance; or any materials which have not been mixed, prepared, applied, used, erected, constructed, placed or fixed in the manner required for such materials under the Buildings Ordinance;
- b) diverge or deviate in any material way from any work shown in a plan approved by the Building Authority under the Buildings Ordinance;
- c) diverge or deviate in any material way from any works shown in a plan relating to minor works that is required to be submitted to the Building Authority under the simplified requirements; or
- d) knowingly misrepresent a material fact in any plan, certificate, form, report, notice or other document given to the Building Authority under the Buildings Ordinance.

Failure to comply with any of the above provisions constitutes an offence and offenders are liable on conviction (a) in the case of a prescribed inspection (other than a prescribed inspection in respect of a window in a building) or building works (other than minor works) or street works, to a fine of HK\$1,000,000 and to imprisonment for three years; or (b) in the case of a prescribed inspection in respect of a window in a building or minor works, to a fine of HK\$500,000 and to imprisonment for 18 months.

In addition, any Registered Specialist Contractor who fails to notify the Building Authority of any contravention of the regulations which would result from the carrying out of any work shown in any plan approved by the Building Authority, contravenes sections 9(5)(b), 9(6)(b) or 4(3)(b) of the Buildings Ordinance and shall be guilty of an offence and shall be liable on conviction to a fine of HK\$250,000. However, it shall be a defence in any prosecution for such a contravention for the person charged to prove to the satisfaction of the court that he did not know, nor could reasonably have discovered, the contravention referred to in the charge.

Under section 40(2E) of the Buildings Ordinance, where a Registered Specialist Contractor certifies or carries out minor works belonging to a class, type or item for which he is not registered, he shall be guilty of an offence and is liable on conviction to a fine at level 6 and to imprisonment for six months, and to a fine of HK\$5,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

Under section 40(2D) of the Buildings Ordinance, any person who knowingly misrepresents a material fact in any report submitted to the Building Authority under section 27C(2)(c) of the Buildings Ordinance shall be guilty of an offence and shall be liable on conviction to a fine of HK\$250,000 and to imprisonment for three years.

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During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, neither our Group nor any of our Directors had been subject to any regulatory actions, disciplinary proceedings or prosecutions under the Buildings Ordinance.

Security of Payment Legislation for the Construction Industry

The Development Bureau launched the 3-month public consultation on 1 June 2015 for the proposed Security of Payment Legislation for the construction industry that aims to improve payment terms and payment delays, encourage rapid dispute resolution and increase cash flow of operators in the construction industry to the Legislative Council.

Under the proposed Security of Payment Legislation, contract parties have (i) the right to progress payments; (ii) the right to adjudication; and (iii) the right to suspend works for non-payment.

Under the current payment practices along the construction supply chain, many contracts include “pay when paid” or “pay when certified” clauses, where payment is conditional on the payer receiving payment from a third party or payment is contingent or conditional on the operation of another contract or agreement. This often resulted in actual durations taken for certification and settlement of progress payments and final account payments being longer than the due dates specified in contracts. Under the proposed legislation, parties undertaking construction activities or providing related services, materials and plant shall be entitled to claim a progress payment based on the value of their work, services or supply shall be based on any contract price or rates or other pricing agreed by the parties to the extent it can be reasonably applied or otherwise having regard to market rates or prices prevailing in the industry at the time the contract was entered into.

All parties undertaking construction activities or provide related services, materials and plant shall be entitled to claim progress payments (which shall include single, interim and final progress payments). Payment of an amount due must be made within 60 calendar days of an interim progress payment claim being made or within 120 calendar days for a final progress payment claim.

The proposed Security of Payment Legislation would also introduce adjudication as a means of resolving disputes relating to non-payment, value of works or extensions of time, allow parties to agree their own adjudicator, and impose a strict timetable upon the contract. The proposed legislation will carry an express provision for enforcement by allowing an adjudicator’s decision to be filed directly in court. Parties would be entitled to refer the matter to the court or arbitration if unsatisfied with the decision of the adjudicator.

The proposed legislation would provide parties with the right to suspend all or part of their works or to reduce the rate of progress in the event of non-payment, provided that notice is given to the principal contractor and site owner (if known). Parties whom suspend or slow down work due to non-payment would also have rights to extension of time and costs arising from the delay.

REGULATORY OVERVIEW

All contracts and sub-contracts, whether in written or oral form, for (i) government works, under which the Government and specified public entities procure construction and maintenance activities or related services, materials or plant; and (ii) private sector works, under which private entities procure construction activities for new buildings (as defined in the Buildings Ordinance) with a main contract value of over HK\$5 million or procure related services, material or plant or supply-only contracts with a contract value of over HK\$500,000, will be governed by the Security of Payment Legislation. Where the main contract is covered by the Security of Payment Legislations, all sub-contracts (irrespective of tier) will be covered by the Security of Payment Legislation regardless of value. The legislation will not apply to private sector construction works relating to new buildings with a main contract value of less than HK\$5 million or related services, material or plant supply-only contracts with a contract value of less than HK\$500,000.

The proposed legislation will not apply retrospectively but will apply only to contracts entered on or after a date to be set by or pursuant to the legislation.

Our Directors are of the view that the proposed Security of Payment Legislation will minimise the risk of non-payment or disputes in the slope works industry. It will provide an effective adjudication framework for us to solve disputes arising from late payment with our customers in a timely and cost-efficient manner, which will reduce the costs and time spent on handling disputes.

On the other hand, our suppliers generally grant us a credit term of 0 to 45 days. We have not adopted any “pay when paid” policy with our suppliers. Therefore, our Directors consider that our payment pattern does not deviate from the requirements stipulated in the Security of Payment Legislation thus, our Directors consider that the Security of Payment Legislation will not have any significant adverse impact on our payment practice, liquidity and cash management.

HISTORY, DEVELOPMENT AND REORGANISATION

ESTABLISHMENT AND DEVELOPMENT OF OUR GROUP

History and development

A-City Workshop was incorporated in Hong Kong in August 2012 with Mr. Ho and Ms. Cao Hongmei (“**Ms. Cao**”), the spouse of Mr. Sieh as founder members, in equal share. Mr. Ho and Mr. Sieh first became acquainted in March 2007 when they met at an engineering seminar. Since then, they had from time to time exchanged their views on the construction industry. In late 2011, Mr. Ho and Mr. Sieh become fellow colleague at Tai Kam Construction Engineering Company Limited. In mid-2012, Mr. Ho wished to set up a new construction company focusing on slope works (i.e. A-City Workshop). Having considered the background and qualification of Mr. Sieh as well as their acquaintances, Mr. Ho had invited Mr. Sieh to invest in A-City Workshop. Mr. Sieh decided to remain in his employment and not to invest in A-City Workshop at that time having considered the benefits of continuing his employment and prospects of further developing his personal network in the slope work industry. Nevertheless, as a sign of support to Mr. Ho, Mr. Sieh had encouraged Ms. Cao to invest in A-City Workshop on her own and to take up its account, financing and contract administration works. Mr. Ho contributed to the setup of A-City Workshop with wealth accumulated from other business, while Ms. Cao contributed to the setup of A-City Workshop with her personal savings. In particular, FingerStones Engineering Limited, a construction company owned as to 95% by Mr. Ho, made certain loans to A-City Workshop. As at 31 December 2013, 2014 and 2015, the amount due from A-City Workshop to FingerStones Engineering limited was approximately HK\$0.6 million, HK\$3.8 million and HK\$5.1 million, respectively. A-City Workshop has been and has remained as a slope works contractor in Hong Kong since its incorporation.

In January 2013, upon the request of his then employer, being an established slope works contractor, Mr. Ho decided to remain in his employment having considered the chance of gaining further working experience and the benefits of continuing his employment. As such, Mr. Ho resigned from his position as director and transferred his shareholding in A-City Workshop to his spouse, Ms. Lee Kim Kum (“**Ms. Lee**”), who then took the opportunity to continue developing A-City Workshop. After such transfer, A-City Workshop became wholly owned by Ms. Cao and Ms. Lee in equal share.

Ms. Lee has accumulated approximately 10 years of experience in managing a construction engineering services company. From May 2007 to December 2016, Ms. Lee acted as a director of FingerStones Engineering Limited, which was owned as to 95% by Mr. Ho and 5% by Ms. Lee at the material time, and was responsible for the human resources, contract administration and management of the operation of the company. During her directorship in FingerStones Engineering Limited, Ms. Lee had participated in contract administration and management of more than 15 slope work projects in both public and private sectors. From December 2000 to December 2008, she worked for Parsons Brinckerhoff (Asia) Ltd as document control officer and was responsible for providing administrative support and the maintenance of the library system of the company. Prior to that, she worked for Ngo Kee Construction Co., Ltd from August 1999 to November 2000 and Wah Cheong Construction Co., Ltd from January 1994 to July 1999 respectively as secretary. She has attended an Assessor/Lead Assessor Training Course registered under the

HISTORY, DEVELOPMENT AND REORGANISATION

IQA International Register of Certificated Auditors in June 1997 and a certificate programme on business management for secretaries under the Hong Kong Management Association in January 2002.

Prior to the establishment of A-City Workshop, Ms. Cao has accumulated approximately two years of experience in the construction industry. From January 2011 to August 2012, she worked for Shing Chun Engineering Limited, which was wholly owned by Mr. Sieh at the material time, as an assistant to director (i.e. Mr. Sieh at the material time) and was responsible for account and financing and contract administration of the company. From July 2006 to December 2007, she worked for Ningbo Kangxing Health Food Co., Ltd* (寧波康型健康食品有限公司) as an assistant to general manager and was responsible for human resources, account and financing and contract management of the company.

At the material times during which Ms. Cao and Ms. Lee acted as directors of A-City Workshop, whilst they were responsible for making major corporate decisions and contract administration, they delegated the project management to the then senior management, which consisted of Mr. Cheung Wai Chung and Mr. Li Shilian. Mr. Cheung Wai Chung and Mr. Li Shilian were further supported by Mr. Ho Siu Wai and Mr. Yiu Yuk Sang in supervising and overseeing the progress of the construction projects undertaken by A-City Workshop.

Mr. Cheung Wai Chung was experienced in the civil engineering industry. He joined A-City Workshop in 2014 as a site manager until 2016. Mr. Cheung was registered under the Construction Industry Council as the skilled worker of metal scaffolder, and plant and equipment operator (excavator).

Mr. Li Shilian was experienced in the civil engineering industry. He joined A-City Workshop in 2013 as a foreman until present. Mr. Li has obtained the trade test certificate on metal scaffold from the Construction Industry Council in 2010 and is registered under the Construction Industry Council as the skilled worker of metal scaffolder and carpenter (formwork) (master).

Mr. Ho Siu Wai was experienced in the civil engineering industry. He joined A-City Workshop in 2014 as an assistant foreman until the present. Mr. Ho has obtained a certificate in safety and health for supervisors (construction) from the Occupational Safety and Health Council in 2018 and is registered under the Construction Industry Council as a skilled worker of metal scaffold.

Mr. Yiu Yuk Sang was experienced in the civil engineering industry. He joined A-City Workshop in 2013 as an assistant foreman until the present. Mr. Yiu has obtained a certificate for operation of truck-mounted crane from the Construction Industry Council in 2016 and is registered under the Construction Industry Council as a truck driver (medium goods vehicles) and a truck driver (heavy goods vehicles).

* As such enterprise is established in the PRC, the English translation of its name is provided for identification purpose only.

HISTORY, DEVELOPMENT AND REORGANISATION

For the period from the date of incorporation to 31 December 2013 and the years ended 31 December 2014, 2015 and 2016, in view of the internal resources and the cost effectiveness taking into account the then business scale, A-City Workshop had delegated most of its site works to its subcontractors and the average number of staff employed by A-City Workshop were 6, 11, 9, and 14, respectively.

For the period from the date of incorporation to 31 December 2013 and the years ended 31 December 2014, 2015 and 2016, A-City Workshop generated revenue of HK\$12.3 million, HK\$17.0 million, HK\$18.6 million and HK\$42.2 million; and recorded net profit/(loss) of HK\$(0.4) million, HK\$(0.4) million, HK\$1.3 million and HK\$2.6 million, respectively.

After gaining further working experience and building up certain business connections in the slope works industry, in the preparation of taking up the business of A-City Workshop, Mr. Ho re-joined A-City Workshop as a director in September 2016. In December 2016, each of Mr. Ho and Mr. Sieh considered that it was the appropriate timing for them to develop their own business in slope works and invested in A-City Workshop by acquiring the shareholdings of their respective spouse in A-City Workshop, i.e. 500 shares each, at HK\$1 each. Meanwhile, Mr. Sieh was appointed as director of A-City Workshop. In determining the consideration for the transfer of shares to Mr. Ho and Mr. Sieh from their respective spouse in December 2016, they took into account (i) the net asset value (before payment of interim dividends) of A-City Workshop of approximately HK\$1.4 million as shown in its management accounts as at 30 September 2016, (ii) the interim dividends to Ms. Lee and Ms. Cao of HK\$1.5 million declared in June 2016, and (iii) the spousal relationships between Mr. Ho and Ms. Lee and between Mr. Sieh and Ms. Cao. In view of the above, our Directors are of the view that, and the Sponsor concurs, the consideration at which the shareholdings in A-City Workshop were transferred are fair and reasonable and that the terms of the transfer were on normal commercial terms.

In view of the stabilised business operation and given that the business has been taken up by their respective spouse whom were entrusted as competent and experienced in the industry, Ms. Cao and Ms. Lee decided to resign from their position in the pursuit of their other personal interest in December 2016.

In February 2013, we were registered under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme) at the Construction Industry Council, which is a prerequisite for a subcontractor to participate in public projects commissioned by certain Government departments and statutory bodies. For further details, please refer to the paragraph headed “Regulatory overview – Contractor licensing regime and operation”.

The registration with the Building Authority as Registered General Building Contractor and Registered Specialist Contractor under the site formation works category in the year of 2017 and the awarding of a project with estimated contract sum over HK\$90.0 million in the same year signified our capability to undertake large-scale slope works projects and provided the basis of establishing our current customer base.

HISTORY, DEVELOPMENT AND REORGANISATION

The following table summarises the major milestones for the development of our operating subsidiary, A-City Workshop, into the present scale of operations:

August 2012	Established in Hong Kong
February 2013	Registered under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme)
January 2017	Accredited with ISO 9001:2015 Quality Management System Standard
May 2017	Registered with the Building Authority as Registered General Building Contractor
June 2017	Registered with the Building Authority as Registered Specialist Contractor under the site formation works category
November 2017	First awarded a project with estimated contract sum over HK\$90.0 million
June 2018	First awarded a project to act as main contractor in the role of the Registered Specialist Contractor (site formation works) under the Buildings Ordinance
October 2018	Accredited with ISO 14001:2015 Environmental Management System Standard and OHSAS 18001:2007 Occupational Health and Safety Management System Standard

Our subsidiaries

Kanic International

Kanic International was incorporated in the BVI on 5 March 2019. Such company is authorised to issue up to a maximum of 50,000 ordinary shares of a single class with a par value of US\$1 each, among which 11 shares are in issue and directly wholly-owned by our Company upon completion of the Reorganisation.

Kanic International was an investment holding company and an intermediate holding company of our Group as at the Latest Practicable Date.

HISTORY, DEVELOPMENT AND REORGANISATION

A-City Workshop

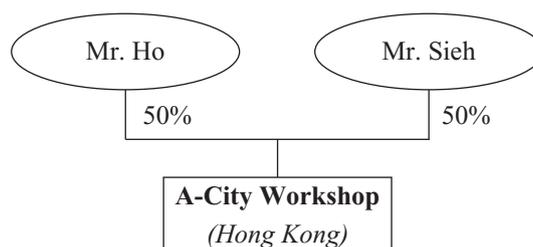
A-City Workshop was incorporated in Hong Kong on 31 August 2012. As at 1 January 2017 (being the commencement date of the Track Record Period), A-City Workshop was held as to 50% by each of Mr. Ho and Mr. Sieh. Such company has an issued share capital of HK\$1,000 divided into 1,000 ordinary shares, all of which are indirectly wholly-owned by our Company upon completion of the Reorganisation.

A-City Workshop commenced business in January 2013 and is mainly engaged in the business of slope works in Hong Kong.

REORGANISATION

In January 2019, we commenced the Reorganisation in preparation for the Share Offer.

The shareholding and corporate structure of our Group immediately prior to the Reorganisation is set out in the chart below:



Step 1 – Incorporation of BVI corporate shareholder

On 16 January 2019, Good Hill allotted and issued one share, credited as fully paid at par, to each of Mr. Ho and Mr. Sieh, for a consideration of US\$1 each as initial subscribers.

Step 2 – Incorporation of our Company

On 30 January 2019, our Company allotted and issued one share, credited as fully paid at par, to the initial subscriber, which was then transferred to Good Hill on the same day for a consideration of HK\$0.01 at par and settled by Good Hill in cash on the same day.

Step 3 – Incorporation of Kanic International

On 5 March 2019, Kanic International allotted and issued one share, credited as fully paid at par, to our Company for a consideration of US\$1 as initial subscriber.

Step 4 – Transfer of the entire issued share capital of A-City Workshop to Kanic International

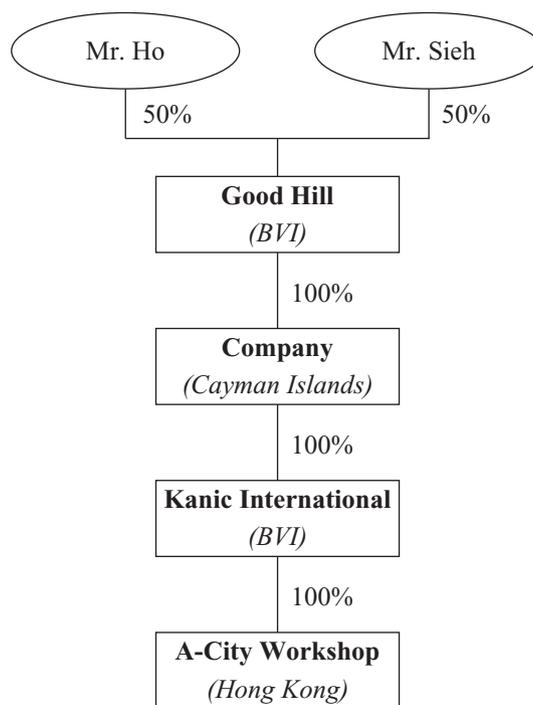
On 15 March 2019, each of Mr. Ho and Mr. Sieh transferred 500 shares of A-City Workshop, in aggregate representing the entire issued share capital of A-City Workshop, to Kanic International for a consideration of HK\$26,780,000, which was determined based on

HISTORY, DEVELOPMENT AND REORGANISATION

the net asset value of A-City Workshop as at 31 December 2018 and settled by (a) Kanic International by allotting and issuing 10 shares, credited as fully paid at a premium, to our Company; (b) our Company by allotting and issuing 2,000 Shares, credited as fully paid at a premium, to Good Hill; and (c) Good Hill by allotting and issuing one share, credited as fully paid at a premium, to each of Mr. Ho and Mr. Sieh.

CORPORATE AND SHAREHOLDING STRUCTURE

The following chart sets forth our Group's corporate and shareholding structure immediately after completion of the Reorganisation, but before completion of the Share Offer and the Capitalisation Issue:



INCREASE IN AUTHORISED SHARE CAPITAL

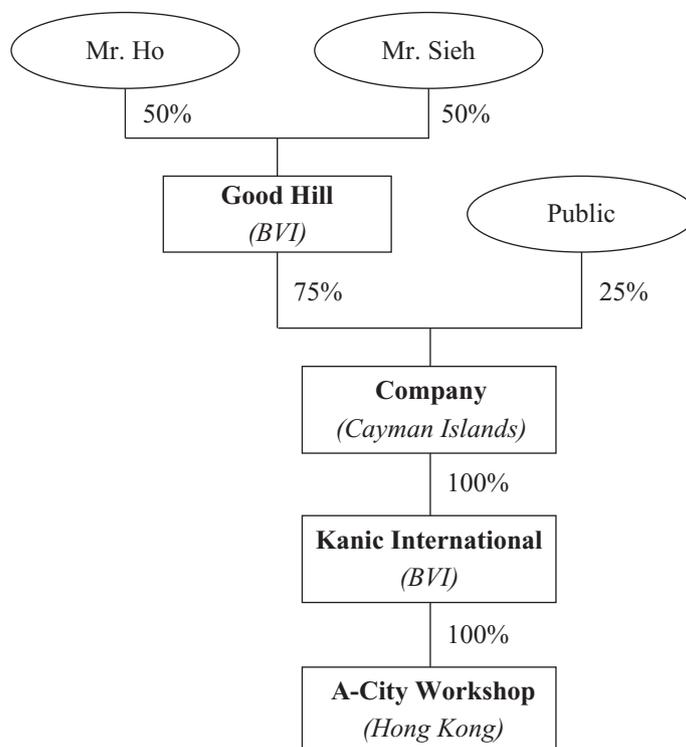
On 25 November 2019, our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of an additional 962,000,000 new Shares of HK\$0.01 each.

HISTORY, DEVELOPMENT AND REORGANISATION

CAPITALISATION ISSUE

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Share Offer, our Directors are authorised to capitalise an amount of HK\$2,999,979.99 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of 299,997,999 Shares for allotment and issue to our Shareholder as at 12 December 2019 (i.e. Good Hill).

The following chart sets forth our Group's corporate and shareholding structure after completion of the Reorganisation, the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme):



BUSINESS

BUSINESS OVERVIEW

We are a slope works contractor in Hong Kong. We commenced our business in 2013 and mainly undertook slope works in the role of subcontractor during the Track Record Period. The slope works undertaken by us generally involve landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls. During the Track Record Period, all of our revenue was derived in Hong Kong in terms of the geographical location of our project sites.

We are experienced in undertaking different kinds of slope works which mainly comprise (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works. If so requested by our customer, we may also assist our customer in carrying out ground investigation and preparing foundation designs of flexible barrier system.

A-City Workshop, our principal operating subsidiary, is Registered Specialist Trade Contractor under reinforcement bar fixing, concreting formwork and concreting and a Registered Subcontractor in general civil works with specialty of earthwork and geotechnical works of the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. A-City Workshop is also registered with the Building Authority as a Registered General Building Contractor and a Registered Specialist Contractor under the sub-register of “site formation works”. For further details, please refer to the paragraph headed “Licences and registrations” below in this section.

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. In respect of public sector projects, our customers were generally construction contractors which are registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau. During the Track Record Period, the project owners of our public sector projects generally included the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department. In respect of private sector projects, our customers were generally construction contractors engaged by property owners and educational institutions.

BUSINESS

The following table sets forth a breakdown of our revenue during the Track Record Period for private and public sector projects:

	FY2017			FY2018			Five months ended 31 May 2018			Five months ended 31 May 2019		
	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i> <i>(Unaudited)</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue
Public sector	9	89,827	95.2	11	106,045	95.3	10	51,816	99.8	11	58,876	78.2
Private sector	3	4,496	4.8	5	5,200	4.7	1	90	0.2	4	16,411	21.8
Total	12	94,323	100.0	16^(Note 1)	111,245	100.0	11	51,906	100.0	15^(Note 2)	75,287	100.0

Notes:

- Out of the 16 projects which contributed revenue to FY2018, 6 projects also contributed revenue to FY2017.
- Out of the 15 projects which contributed revenue to the five months ended 31 May 2019, 5 and 10 projects also contributed revenue to FY2017 and FY2018, respectively.

During the Track Record Period, we had a total of 27 projects with revenue contribution to us. As at the Latest Practicable Date, we had 18 projects on hand with an aggregate of approximately HK\$264.6 million yet to be recognised as revenue after the Track Record Period, among which, approximately HK\$107.8 million, HK\$147.3 million and HK\$9.5 million are expected to be recognised as revenue in the seven months ending 31 December 2019, FY2020 and FY2021, respectively. For further details, please refer to the paragraph headed “Projects on hand” below in this section.

Save for one completed private sector project awarded to us as main contractor in June 2018 which contributed HK\$0.2 million to our revenue, we undertook all of our projects in the role of subcontractor during the Track Record Period. For further details, please refer to the paragraph headed “Projects undertaken during the Track Record Period – Revenue by project sector” in this section.

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) subcontractors; (ii) suppliers of materials; and (iii) suppliers of other miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. For further details, please refer to the paragraph headed “Our suppliers” below in this section.

We possess our own direct labour resources for performing slope works. As at the Latest Practicable Date, we had a total of 135 full-time site workers. Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain slope works. During the Track Record Period, we engaged our subcontractors mainly for performing soil nail works, shotcreting works and landscape works.

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We generally procured the materials required for our projects from suppliers based in Hong Kong on our own account. The major types of materials that we purchased included cement and concrete, steel reinforcement, landscape materials and flexible barriers. Depending on the contract terms with our subcontractors, materials may be (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors. Materials are procured by us on a project-by-project basis to meet the estimated demand according to the work schedule of the projects. As such, we did not keep any inventories during the Track Record Period.

We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers. As at the Latest Practicable Date, our Group owned certain machinery, including air compressors, crane truck and excavator, for performing slope works. For further details, please refer to the paragraph headed “Machinery and motor vehicles” in this section.

Our revenue represents income derived from undertaking slope works. Our cost of services mainly includes direct labour cost, subcontracting expenses and direct material cost.

According to the F&S Report, the demand for slope works will continue to grow at a CAGR of 7.4% from 2019 to 2023, reaching HK\$3,875.8 million in 2023. With our experienced management team and past track record, our Directors believe that we are well-positioned to capture the growing demand for slope works in Hong Kong. For details on the market drivers relating to our Group, please refer to the section headed “Industry overview” in this prospectus.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

We offer a comprehensive range of quality slope works

Throughout our years of operations, we have accumulated our expertise in undertaking slope works projects of different scales in Hong Kong. The slope works undertaken by us mainly comprised (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works.

During the Track Record Period, our Group acted as subcontractor in a public sector project initiated by the CEDD where we were responsible for preparing the foundation designs of flexible barrier system for the customer as part of our slope works. Foundation design works often involve advanced technical know-how and are usually handled by qualified engineers. Our foundation design works are mainly handled by our executive Directors, Mr. Ho and Mr. Sieh, who have been registered as Registered Professional

BUSINESS

Engineers under the Engineers Registration Board. We believe that our executive Directors' qualifications in the engineering discipline have given us a competitive edge in the slope works industry.

During the Track Record Period, we had a total of 27 projects with revenue contribution to us. In particular, during the Track Record Period, we acted as subcontractor and undertook 13, two, one, one and one projects initiated by the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department, respectively. Our Directors consider that our track record for undertaking slope works which were initiated by different Government authorities has served as a recognition of our service quality and industry reputation in Hong Kong.

Possession of a pool of skilled workers

We maintain a pool of site workers who are skilled in performing various kinds of slope works. As at the Latest Practicable Date, our Group had a total of 135 full-time site workers. The skilled workers deployed by us are registered for the relevant trade divisions pursuant to the "Designated workers for designated skills" provision under the Construction Workers Registration Ordinance. For further details, please refer to the paragraph headed "Regulatory Overview – Labour, health and safety – Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)" in this prospectus. With a pool of skilled workers, our Directors believe that we are well-positioned to cater to the manpower and skills requirements for projects of varying scales and complexity, which in turn strengthens our industry position. Besides, given a profit margin is generally factored in the subcontracting expenses charged by our subcontractors, our Directors consider that we can offer a competitive price for performing slope works with our own labour.

Experienced and dedicated management team

Our management team has extensive industry knowledge and project experience in the construction industry. Our Group is led by our executive Directors, Mr. Ho and Mr. Sieh, who have been fundamental to the development of our Group. Each of Mr. Ho and Mr. Sieh has approximately 20 years of experience in civil engineering industry, respectively. Mr. Ho was admitted as a member of the Hong Kong Institution of Engineers in March 2002 and was registered as a Registered Professional Engineer under the Engineers Registration Board in July 2003. Mr. Sieh was admitted as a member of the Hong Kong Institution of Engineers in March 2001 and was registered as a Registered Professional Engineer under the Engineers Registration Board and a member of the Institution of Structural Engineers in October 2000. Mr. Ho and Mr. Sieh are primarily responsible for the overall management, strategic planning and the day-to-day business operation of our Group.

Our Directors are supported by our project management team consisting of 20 personnel as at the Latest Practicable Date, who possess practical skills and experience as required in handling our projects. Mr. Lau Chiu Ming, our project manager, has over nine years of experience in civil engineering industry. For further information regarding the background and experience of our Directors and senior management, please refer to the section headed "Directors and senior management" in this prospectus.

BUSINESS

Stringent quality control and high safety standard and environmental impact control

We place emphasis on providing consistently high quality services. We have adopted and implemented a quality control system that complies with international standards. Our quality management system has been certified to satisfy the requirement of ISO 9001:2015. We have also set up an occupational health and safety system to promote safe working practice among all employees and to prevent the occurrence of accidents through safety inspections. Our health and safety management system has been certified to be in conformance with OHSAS 18001:2007. Further, we have also set up an environmental management system to promote environmental awareness and to prevent pollution of the environment resulting from projects undertaken by us, and our environmental management system has been certified to satisfy the requirements of ISO 14001:2015.

Our Directors believe that our stringent quality assurance system and strong commitment to environmental and occupational health and safety management will allow us to be better positioned to deliver quality works on time and within budget, thereby strengthening our position as a slope works contractor in Hong Kong.

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong slope works industry. We intend to achieve our business objective by (i) applying for registration on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”; and (ii) expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional slope works projects from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand.

Since 1977, the Government, through the Geotechnical Engineering Office of CEDD, has been conducting studies and works to reduce landslide risk in Hong Kong in view of the geographical landscape (close proximity of slopes to buildings and infrastructure) and climate in Hong Kong (risk of seasonal torrential rainfall). The Government has implemented the Landslip Prevention and Mitigation Programme (the “LPMitP”) on a rolling basis since 2010. Any necessary landslip prevention and mitigation works for man-made slopes and natural hillside catchments under Government’s maintenance responsibility are implemented under the LPMitP. For further details, please refer to the paragraph headed “Industry Overview – Market divers – Promotion of landslip prevention and mitigation programme (LPMitP)” in this prospectus. Based on the information publicly available on the CEDD’s website, the Geotechnical Engineering Office of CEDD has spent about HK\$22.9 billion on landslip prevention and mitigation studies and works since the launch of LPMitP.

According to the F&S Report, the revenue of public slope works in Hong Kong increased from HK\$1,624.0 million in 2013 to HK\$2,233.1 million in 2018, at a CAGR of 6.6%. Being driven by the increasing population and more buildings built adjacent to slopes in Hong Kong, it is expected that the Government will put more effort on the promotion of

BUSINESS

LPMitP to ensure the safety of all man-made slope and natural hillside. Therefore, the estimated revenue of public slope works in Hong Kong is forecasted to increase from HK\$2,412.1 million in 2019 to HK\$3,244.7 million in 2023, at a CAGR of 7.7%.

Further, based on the F&S Report, the revenue of slope works in the private sector in Hong Kong increased from HK\$371.4 million in 2013 to HK\$478.4 million in 2018, at a CAGR of 5.2%. The estimated revenue of slope works in the private sector in Hong Kong is forecasted to increase from HK\$505.8 million in 2019 to HK\$631.1 million in 2023, at a CAGR of 5.7%.

Taking into consideration (i) our competitive strengths set out in the paragraph headed “Competitive strengths” above in this section; (ii) our track record and expertise in performing slope works; (iii) our projects on hand as at the Latest Practicable Date; and (iv) the forecasted growth of slope works market in Hong Kong based on the F&S Report, our Directors believe that our Group would be able to capture the potential business opportunities associated with the forecasted increase in demand for slope works as discussed in the paragraphs below if we continue to strengthen our available resources. Besides, with additional financial resources, we will be able to fulfil the working capital requirements for being a contractor registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” as discussed in further details below.

In this connection, our key business strategies are as follows:

1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor

We intend to apply for registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” (“**Approved Specialist Contractor**”). The List of Approved Specialist Contractors for Public Works comprises specialist contractors who are approved for carrying out public works in one or more of the 50 categories of specialist works classified by the Development Bureau. The scope of work under the category of “Landslip preventive/remedial works to slopes/retaining walls” covers landslip preventive works, remedial works or formation works of slopes and/or retaining walls in areas immediately behind occupied structures, adjacent to railway lines or major trunk roads.

Our executive Directors consider that obtaining the registration as an Approved Specialist Contractor will significantly enhance our market position and facilitate us to expand our market share in the slope works industry in Hong Kong. After being registered as an Approved Specialist Contractor, we will be able to tender for public slope works directly from the Government, which will give us exposure to more business opportunities and allow us to capture the forecasted growth in public slope works as stated in the F&S Report.

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In anticipation of our proposed application for being an Approved Specialist Contractor on probationary status, our executive Directors have assessed our ability to fulfil the criteria set out in the Contractor Management Handbook – Revision B published by the Development Bureau. Based on their assessment, our executive Directors confirm that A-City Workshop will be eligible to obtain the aforesaid registration and tender for Government contracts once we have (i) obtained additional funding for satisfying the working capital requirement, and (ii) acquired certain machinery specified in the Contractor Management Handbook. Please refer to the paragraphs below for details of our plan to fulfil the two aforesaid eligibility requirements.

(I) *Commercial rationale for applying for the registration as an Approved Specialist Contractor*

(i) Obtaining the qualifications in tendering for public slope works directly from the Government

Being registered as an Approved Specialist Contractor is a prerequisite for tendering slope works contracts directly from the Government. Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, the admission and retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria. For further details on the registration requirements, please refer to the paragraph headed “Regulatory Overview – Contractor licensing regime and operation – Requirement for the application of registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works” in this prospectus.

As at the Latest Practicable Date, our Group was not qualified to tender for public slope works directly from the Government because we were not registered on the List of Approved Specialist Contractors for Public Works. During the Track Record Period, we secured new business opportunities in public sector projects mainly through tender invitations received from construction contractors which are registered on the List of Approved Specialist Contractors for Public Works. On some occasions, we have approached the construction contractors which might have tendered for certain public sector projects we identified on gazettes or Government websites and discussed with them on the prospects of subcontracting the relevant works to us.

We have remained open to the prospect of acting either as a main contractor or subcontractor, depending on the tender requirements and project needs of our customers. Nevertheless, since we were not qualified to tender for projects directly from the Government, our involvement in public sector projects was limited to the role of subcontractor. During the Track Record Period, based on public information available from the Government, we were interested in undertaking certain public sector projects, after evaluating the scope of services, our capability, the expected complexity, our available human resources and feasibility of the projects. Nevertheless, these public sector projects were eventually awarded to main contractors with

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whom we had no prior business engagements or connections, and we did not receive tender invitations for the subcontract works in those projects even though we have approached them for potential engagements with us.

Besides, our customers' ability to tender for Government contracts is constrained by their service capacity and available financial resources for meeting the working capital requirement for being an Approved Specialist Contractor from time to time. Therefore, if our customers are unable to tender for new projects due to the aforesaid factors, this may limit our tender exposure to new public sector projects even though we have the service capacity to undertake additional works at the relevant time.

Further, we undertake slope works on a project-by-project basis for our customers. Even if our customers were awarded with certain public sector projects from the Government, they have the absolute discretion to decide whether to invite us to tender for the subcontract works in such projects. As such, there is no assurance that we can receive tender invitations from our customers for each of their public sector projects.

In addition, the Government provides better assurance on payment credibility as compared to construction contractors in general. During the Track Record Period, the credit term granted by us to our customers being construction contractors is generally 30 to 60 days from the issue of invoices. Some of our customers adopt a "pay when paid" policy with us and they have the rights to pay us after collection of payments from their customers. Therefore, we normally issue our invoices to such customers when we obtained notification of payment from them. In contrast, as stipulated in the relevant contracts, payments for public sector projects will be made by the Government to the main contractors within 21 days from the date of issue of payment certificate. As such, our executive Directors consider that being an Approved Specialist Contractor will allow us to obtain projects directly from the Government, which, in turn, facilitates our liquidity management.

Based on information publicly available from the CEDD, there were 39 ongoing public slope works projects initiated under the Landslip Prevention and Mitigation Programme as at 1 October 2019. Among these 39 ongoing public slope works projects, only nine of them (which is equivalent to approximately 23.1% of the total number of projects) were awarded to our customers, including Customer D, Geotech Engineering Limited and Customer G. Further, according to the F&S Report, our major customers during the Track Record Period, in aggregate, accounted for no more than approximately 29.0% of the slope works industry in Hong Kong in terms of revenue in 2018.

Based on the above information, our executive Directors consider that our customers, together with our Group, have accounted for no more than one-fourth of the slope works industry in Hong Kong in terms of (i) the

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number of ongoing projects under the Landslip Prevention and Mitigation Programme as at 1 October 2019; and (ii) the total revenue for slope works in Hong Kong in 2018. Since we were not qualified to tender for public slope works directly from the Government, our exposure to public sector projects is largely limited by (i) our customers' service capacity and available financial resources in tendering for additional public sector projects; and (ii) the success rate of our customers in obtaining projects from the Government. For instance, among the 39 ongoing public slope works projects under the Landslip Prevention and Mitigation Programme, a majority of them were awarded to those main contractors who had no prior business engagements or connections with us. Our executive Directors consider that our exposure to these projects which had been awarded to main contractors who had no prior business engagements or connections with us is relatively limited due to the following reasons:

- (i) there is no guarantee that we will receive tender invitations for the subcontract works in those projects which were awarded to main contractors who had no prior business engagements or connections with us even though we have attempted to approach them and promote our service and corporate profile;
- (ii) based on our past experience, new customers who had limited past business relationship with us (e.g. Geotech Engineering Limited and Customer G) would generally require us to provide performance guarantee issued by banks or insurance companies to safeguard our performance and service quality. A pledged deposit is normally required to be placed with the bank or insurance company for arranging the performance guarantee. As the amount of our available working capital fluctuates from time to time, there is no assurance that we would be able to provide the collateral as requested by the bank or insurance company, particularly for sizeable projects, at the relevant time; and
- (iii) we may have to deploy additional project management staff for handling projects awarded by new customers. When new customers award projects to us, they may carry out extensive quality control inspection on our work procedures, covering work quality, environmental management measures and occupational health and safety policies to ensure compliance with their internal practice. We would have to deploy more project management staff to liaise with the new customers and to handle the requests in relation to their quality control inspections. Therefore, the availability and capacity of our project management staff may pose a constraint on our ability to undertake projects with new customers.

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During the Track Record Period, we have made consistent effort in expanding our customer base in order to broaden the source of projects in both public and private sectors, as evidenced by the increase in number of customers and the reduction in our reliance on our largest customer, Tai Kam Construction Engineering Company Limited. One of the ways to further increase our market share is to strengthen our marketing activities and build up business connections with those main contractors with whom we had no prior business engagements or connections in order to obtain their tender invitations for the remaining two-third slope works projects available in the industry. Nevertheless, based on our past experience, there is no guarantee that those main contractors would invite us for tender despite our active marketing efforts. Even if such main contractors are willing to invite us for tender, they may only give us tender invitations for those relatively small scale projects at the initial stage.

In light of the growth in our business during the Track Record Period and the increasing demand for slope works in Hong Kong, our executive Directors believe that it is the appropriate time for us to further increase our tender opportunities via obtaining the qualification as Approved Specialist Contractor which will enable us to directly tender for public sector projects.

Our executive Directors consider that our plan to become an Approved Specialist Contractor is underpinned by our business growth during the Track Record Period and up to the Latest Practicable Date. Despite the slight decrease in the ending value of our backlog from approximately HK\$168.7 million as at 31 December 2017 to approximately HK\$155.5 million as at 31 December 2018, our executive Directors consider that our business growth is sustainable in the foreseeable future, taking into consideration the following factors:

- From 1 January 2019 up to the Latest Practicable Date, our Group had been awarded approximately HK\$184.4 million of new contract works and variation orders, which had already surpassed the total value of new contract works and variation orders awarded to us in the entire FY2018 (i.e. approximately HK\$98.1 million). In particular, since 1 January 2019, Geotech Engineering Limited (being our new customer in FY2018) and Customer G (being our new customer in FY2019) had awarded three and one projects, respectively, to us with an aggregate estimated contract sum of HK\$109.0 million. As such, our executive Directors believe that our ability to expand and diversify our customer base is a major driver in supporting our business growth.
- The amount of our backlog as at a particular year-end date is unable to fully reflect our overall profitability in the forthcoming year as the number and size of our projects on hand varies from time to time throughout the year. For instance, although the ending value of our backlog slightly decreased from approximately

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HK\$168.7 million as at 31 December 2017 to approximately HK\$155.5 million as at 31 December 2018, we were able to maintain our business growth as evidenced by (i) the increase in our average monthly revenue from approximately HK\$7.9 million for FY2017 to approximately HK\$9.3 million for FY2018 and further to approximately HK\$15.1 million for the five months ended 31 May 2019; and (ii) the projected increase in our revenue from approximately HK\$111.2 million for FY2018 to approximately HK\$184.0 million for FY2019.

Our executive Directors have considered the potential conflicts between us and our existing customers after we become an Approved Specialist Contractor, but nevertheless decided that such risk is insignificant due to the following reasons:

- There will be no change in our business operations after our registration as an Approved Specialist Contractor. We have and will remain open to the prospect of acting either as a main contractor or subcontractor in slope works projects. As we plan to further expand our manpower on top of its present scale, we need to maintain sufficient labour resources to undertake various types of slope works without heavily relying on our subcontractors, as in line with our operations during the Track Record Period. Further, we have no plan to limit ourselves to the role of main contractor after we obtain our registration as an Approved Specialist Contractor. In fact, we have been consistently reaching out to other main contractors for potential business opportunity, as demonstrated by the award of a project with estimated contract sum of HK\$20.0 million to us by a new customer, namely Customer G, in FY2019. Going forward, we will continue to actively liaise with our existing and potential customers and respond to their tender invitations as long as we have the capacity to cater to their work schedule.
- As mentioned in the paragraphs above, our customers, together with our Group, have accounted for no more than one-third of the slope works industry in Hong Kong in terms of (i) the number of ongoing projects under the Landslip Prevention and Mitigation Programme as at 1 October 2019, and (ii) the total revenue for slope works in Hong Kong in 2018. The estimated revenue of public slope works in Hong Kong is forecasted to increase from approximately HK\$2,412.1 million in 2019 to approximately HK\$3,244.7 million in 2023, at a CAGR of approximately 7.7%. On the other hand, the estimated revenue of slope works in the private sector in Hong Kong is forecasted to increase from approximately HK\$505.8 million in 2019 to approximately HK\$631.1 million in 2023, at a CAGR of approximately 5.7%. In view of the existing market share of our major customers and our

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Group as well as the forecasted growth in the slope works industry in the coming years, our executive Directors believe that there is ample room in the slope works industry for both our customers and our Group to maintain and further increase their respective market shares.

- In assessing the risk of potential conflict between us and our existing customers in the future, we have informed our major customers, including Tai Kam Construction Engineering Company Limited, Fong On Construction Limited, Customer D and Geotech Engineering Limited, regarding our plan to apply for registration as an Approved Specialist Contractor. Such customers have confirmed to us that they have no intent to cease inviting us to tender for their projects after we become an Approved Specialist Contractor, and they do not foresee any material adverse change in our business relationships with them as a result of our proposed registration as an Approved Specialist Contractor. As our major customers generally focus on project management role and place less emphasis on undertaking site works with their own workers, they have regular needs to delegate the site works to their subcontractors, especially those who have track record in delivering quality works according to work schedule. Based on the aforesaid, our executive Directors believe that as long as we can maintain our service capacity and work quality to cater to the needs of our major customers, it is unlikely that they would cease or materially reduce their business engagements with us solely due to our plan to apply for registration as an Approved Specialist Contractor.

Based on the above, our executive Directors consider that the risk of potential conflicts between us and our existing customers is insignificant as compared to those potential benefits to our Group after we become an Approved Specialist Contractor as explained above.

In view of the aforesaid, our executive Directors believe that we could broaden our tender exposure for public sector projects and increase our market share in the slope works industry by becoming an Approved Specialist Contractor. After we become an Approved Specialist Contractor, we can identify tender invitations for potential public sector projects through gazettes or Government websites and submit tenders directly to the Government if we consider that the relevant projects are suitable for us.

(ii) Profitability as main contractor in public sector projects

To a large extent, the project profitability of an Approved Specialist Contractor is determined by the portion of works subcontracted out, the technical know-how and project management efficiency of the contractor, irrespective of the role undertaken by such contractor (i.e. as a main

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contractor or subcontractor). Assuming other factors remain the same, when an Approved Specialist Contractor delegates a significant portion of site works to its subcontractors, this will generally lower its profit margin in the projects as compared to using its own labour resources, given a profit markup is generally factored in the fees charged by the subcontractors.

During the Track Record Period, we have maintained a pool of skilled workers for performing various kinds of slope works. Depending on the availability of our labour resources and the types of specialised works involved, we have from time to time delegated works to our subcontractors. It is our priority to deploy our own workers to perform site works as far as our resources allow and this would enable us to have a better cost control than other slope works contractors who heavily rely on their subcontractors to perform the site works.

Considering the additional public sector projects that we expect to obtain after becoming an Approved Specialist Contractor, we intend to strengthen our in-house capacity by recruiting additional staff in order to undertake significant portion of site works with our own skilled workers as we did during the Track Record Period. Our executive Directors believe that our recruitment plan is in line with our past strategy and will allow us to maintain the existing ratio of site works undertaken by our own labour and our current project profitability when we undertake public sector projects in the role of main contractor.

Based on information publicly available and the industry knowledge of our executive Directors, it is noted the subsidiaries of certain listed issuers on the Stock Exchange possess the qualification as Approved Specialist Contractors. Unlike our Group, these Approved Specialist Contractors generally focus on project management and supervisory role, and heavily rely on their subcontractors to perform the site works. Therefore, the project profitability of those Approved Specialist Contractors is largely attributable to their project management and supervision works, rather than the site works which are mainly delegated to their subcontractors. As such, our executive Directors believe that the profitability of these Approved Specialist Contractors may not be indicative of our upcoming business and financial performance when we expand our role and undertake Government project as main contractor in the future.

Going forward, we expect that we will be responsible for carrying out the following project management and supervision works, which will be factored in our tender pricing, as we undertake public sector project in the role of main contractor:

- preparing statutory submission and directly reporting and liaising with the representatives assigned by the Government;

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- assigning project management staff to be stationed for the project on a full-time basis;
- supervision of site works with a view to ensuring the conformity of the works with the specifications required by our customers as well as the overall quality of the works;
- overall planning and management of work schedules and logistical arrangements in relation to the workers, materials, machinery and other resources required at work sites with a view to ensure smooth and timely completion of the works;
- taking out employees' compensation insurance, third party liability insurance and contractor's all risks insurance for the project which cover and protect all employees of both main contractors and subcontractors of all tiers working in the relevant construction sites and works performed by them in the relevant construction sites;
- preparing environmental management plan which sets out the measures to be taken in relation to various aspects such as noise control, air pollution control, water pollution control and waste management, as well as designating the responsible personnel to ensure that works are carried out in the interests of environmental protection; and
- preparing and overseeing the implementation of the occupational health and safety policies.

Our executive Directors anticipate that our overall profitability will remain at its current level or further improve when we expand our role and undertake public sector projects as main contractor because: (i) we expect to maintain the existing ratio of site works undertaken by our own labour and our current profitability as we expand our workforce and increase our in-house capacity for performing site works under the upcoming projects; and (ii) we will be able to charge a profit margin for carrying out those project management and supervision works as main contractor as discussed above.

Leveraging the credentials and project experience of our executive Directors, Mr. Ho and Mr. Sieh, we consider that we are competent in undertaking the project management and supervision works for acting as main contractor. Mr. Ho was admitted as a member of the Hong Kong Institution of Engineers in March 2002 and was registered as a Registered Professional Engineer under the Engineers Registration Board in July 2003. Mr. Sieh was admitted as a member of the Hong Kong Institution of Engineers in March 2001 and was registered as a Registered Professional Engineer under the Engineers Registration Board and a member of the

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Institution of Structural Engineers in October 2000. During their previous employments, both Mr. Sieh and Mr. Ho had accumulated experience in performing project management and supervision works for main contractor of public sector projects. For further details on the background of Mr. Sieh and Mr. Ho, please refer to the section headed “Directors and senior management” in this prospectus.

(iii) Leveraging our technical know-how and design capability accumulated from past public sector projects

Our executive Directors consider that our technical know-how and expertise accumulated as subcontractor are commonly applicable when we undertake future projects directly from the Government. The majority of our revenue was derived from public sector projects during the Track Record Period. For FY2017, FY2018 and the five months ended 31 May 2019, we derived approximately HK\$89.8 million, HK\$106.0 million and HK\$58.9 million from public sector projects, which represented approximately 95.2%, 95.3% and 78.2% of our total revenue, respectively. In particular, during the Track Record Period, we acted as subcontractor and undertook 13, two, one, one and one projects initiated by the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department, respectively. Our executive Directors consider that the customers of our public sector projects have selected us partly because we are able to offer a comprehensive range of quality works and our Group has consistently demonstrated our ability to fulfil the quality standards and technical specifications of various Government authorities.

Besides, our design capability has facilitated us in preparing various design submissions for our customer. During the Track Record Period, our Group acted as subcontractor in a public sector project where we were responsible for preparing the foundation designs of flexible barrier system for the customer as part of our slope works. Foundation design works often involve advanced technical know-how and are usually handled by qualified engineers. Our foundation design works are mainly handled by our executive Directors, Mr. Ho and Mr. Sieh, who have been registered as Registered Professional Engineers under the Engineers Registration Board.

In addition, as Registered Professional Engineers, our executive Directors possess the relevant skills in handling contract administration and quality assurance in relation to engineering works. We believe that their skills will facilitate us to fulfil the contract requirements of various Government authorities in the future. Leveraging our technical know-how, design capability and competitive strengths set out in the paragraph headed “Competitive strengths” above in this section, our executive Directors believe that it is the appropriate timing for our Group to apply for the registration as an Approved Specialist Contractor, which will allow us to tender for public slope works projects directly from the Government.

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(iv) Our ability to obtain public sector projects as main contractor under the Government rating system

After becoming an Approved Specialist Contractor, our Group's performance as main contractor in public sector projects will be rated under a contractor's performance index system (the "**Contractors' Performance Index System**"). The evaluation results of contractors' performance in Government works contracts are generally due at a three-month interval (the "**Reporting Periods**"). The Contractors' Performance Index System was established by the Environment, Transport and Works Bureau of the Government in 2000 (currently administered by the Development Bureau) to provide a ready indication of contractors' performance standard for reference by the project office and relevant tender board for tender evaluation.

Under the Contractors' Performance Index System, the performance of a contractor included in the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau is represented by a performance rating which is derived from scores given in all the reports written on the performance of the contractors in Government works contracts in the preceding 12 Reporting Periods. The score of a contractor's performance report is determined by the percentage of the scores which are attained by the contractor over the maximum scores in 11 different attributes (where applicable), including but not limited to workmanship, progress, site safety, environmental pollution control, attendance to emergency and attitude to claims.

The contractor's performance ratings are used to determine the tenderers' performance scores in the "formula approach" which has been implemented by the Government for evaluation of tenders for public works contracts since November 2002. Pursuant to the Technical Circular (Works) No.4/2014 issued by the Development Bureau, under the "formula approach", the tender price and the tenderer's past performance are taken into account when evaluating a tender for public works contracts. With respect to each conforming tender, an overall score will be determined in accordance with a formula where 60% of the overall score is calculated based on the tender price and 40% of the overall score is calculated based on the tenderer's performance rating under the Contractors' Performance Index System and the tenderer's safety rating based on its past accident rates under public works contracts. The tender with the highest overall score is normally recommended for acceptance, subject to the usual requirement that the relevant Government department is satisfied that the recommended tenderer is fully capable (including technically, commercially and financially) of undertaking the contract.

Pursuant to the Technical Circular (Works) No.4/2014, if a tenderer does not have a rating on a particular date, he shall be assigned an average rating based on the ratings of the other tenderers who have submitted a conforming tender. Given our Group will not have a rating under the Contractors' Performance Index System immediately after our registration as

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an Approved Specialist Contractor, our Group will be assigned an average rating as aforesaid. Our executive Directors consider that our rating under the Contractors' Performance Index System will improve over time which, in turn, will strengthen our competitiveness for tendering for public sector projects due to the following factors:

a) Tender price

Pursuant to the Technical Circular (Works) No.4/2014, 60% of the overall score for tendering public sector projects directly from the Government is attributable to the tender price. When determining the tender price for a public sector project, tenderers generally take into account, among other factors, the subcontracting expenses to be incurred for works outsourced to their subcontractors. As discussed in the paragraph headed "(ii) Profitability as main contractor in public sector projects" in this section above, some contractors who are registered as Approved Specialist Contractors generally focus on project management and supervisory role, and heavily rely on their subcontractors to perform the site works. In contrast, we have maintained a pool of skilled workers for performing various kinds of slope works and it is our priority to deploy our own workers to perform site works as far as our resources allow. Given that a profit mark-up is generally factored in the subcontracting fees charged by subcontractors, our executive Directors consider that having a pool of skilled workers lowers our needs for subcontracting services and the associated costs, which in turn would give us greater flexibility in charging a more competitive tender price for public sector projects than other main contractors who heavily rely on their subcontractors to perform site works.

b) Past accident rates

For FY2017, FY2018 and the five months ended 31 May 2019, our Group recorded accident rate of approximately 11.3, 10.5 and 6.5, respectively, which is lower than the industry average of accident rate in Hong Kong (i.e. 32.9 for FY2017 and 31.7 for FY2018). Further, we have not been subject to any prosecution, conviction or penalty being brought against us in relation to occupational safety matters. For further details, please refer to the paragraph headed "Occupational health and work safety – Analysis of accident rates" below in this section. As such, our executive Directors do not foresee any matters in relation to occupational safety that would adversely affect our rating under the scoring system for public sector projects.

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c) Major attributes of the Contractors' Performance Index System

As aforementioned, the tenderer's performance rating under the Contractors' Performance Index System forms part of the overall score for tendering public sector projects directly from the Government. The table below sets forth how our Group fulfils the major attributes of the Contractors' Performance Index System:

Major attribute	How our Group fulfils the major attributes
Workmanship and attitude to claims	We place emphasis on providing consistently high quality services. We perform in-house quality inspection and project supervision throughout project implementation in accordance with our in-house quality management system which has been certified to satisfy the requirement of ISO 9001:2015 international standard. For further details, please refer to the paragraph headed "Quality control" in this section. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material complaint or request for any kind of compensation from our customers due to quality issue in relation to services provided by us or works performed by our subcontractors.
Progress	A project management team is assigned for every project based on the project nature and the relevant qualifications and experiences required. The project management team is headed by the project manager/site agent who is responsible for the overall management of the project, including but not limited to supervision of work progress, monitoring work efficiency and reviewing the progress reports. During the Track Record Period and up to the Latest Practicable Date, we did not experience any termination of contracts or incur any liquidated damages due to material delay on our part in completion of a project.
Site safety and attendance to emergency	We place emphasis on occupational health and work safety. We have established an occupational health and safety management system which is certified to be in compliance with OHSAS 18001:2007 international standard. Our project management team is responsible for overseeing the implementation of our occupational health and safety policies and to ensure that we comply with applicable occupational health and safety standards.

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Environmental pollution control	We have established an environmental management system in conformance with ISO 14001:2015 international standard. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors. For further details, please refer to the paragraph headed “Environmental compliance” in this section.
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Under the current regime of the Development Bureau, our prospect to tender for public sector projects after we become an Approved Specialist Contractor will correlate with the score that we achieve under the scoring system for public sector projects. Based on the above analysis, our executive Directors anticipate that we will be able to obtain public sector projects under the scoring system of the Government, taking into consideration:

- (i) having a pool of own skilled workers gives us more flexibility in terms of tender pricing. Given 60% of the overall score for tendering public sector projects is attributable to the tender price, a flexible pricing strategy will allow us to attain higher score in this aspect;
- (ii) our accident rates during the Track Record Period were generally lower than the industry average of accident rate in Hong Kong which shall be considered favourably under the tenderer’s safety rating; and
- (iii) our ability to fulfil the major attributes of the Contractors’ Performance Index System as explained above will allow us to achieve a satisfactory score for our tenderer’s performance rating.

In view of the aforesaid, our executive Directors do not foresee any material change in our business operations or strategies after we become an Approved Specialist Contractor given that our existing competitive strengths remain to be applicable under the Government rating system as we compete for public sector projects in the role of main contractor in the future.

(v) *Strengthening our market presence and competitiveness in the industry*

The admission and retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria. As such, our executive Directors consider that our registration as an Approved Specialist Contractor will serve as an official recognition of our performance in various aspects, including financial strength, quality management, work proficiency, scale of operations and technical know-how, thereby strengthening our competitiveness and awareness in the slope works industry in Hong Kong.

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Based on information publicly available on the website of the Development Bureau as at the Latest Practicable Date, there were 39 contractors registered on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls”, among which 16 were on probation and 23 obtained a confirmed status. The Development Bureau has approved a total of four applications for registration as Approved Specialist Contractor from 2015 up to the Latest Practicable Date. Among these four successful applications, one of them was approved by the Development Bureau recently in 2019. In light of the limited number of registered contractors in the aforesaid category of works, our executive Directors consider that our registration as an Approved Specialist Contractor will reinforce our industry reputation, strengthen our market presence and increase our corporate profile in the slope works industry in Hong Kong.

(vi) Enhancing our prospects of obtaining new projects from construction contractors and private property owners and developers

According to the F&S Report, when construction contractors and private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works because such list provides them with assurance on the track record, financial position and service quality of the registered contractors. Our executive Directors consider that our registration as an Approved Specialist Contractor will strengthen our customers’ confidence in our service capability and enhance our prospect of obtaining new projects from construction contractors and private property owners and developers.

(vii) Enlarging our customer base

For FY2017, FY2018 and the five months ended 31 May 2019, the percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 98.5% and 97.9%, respectively. Our Group has made consistent effort in expanding and enlarging our customer base. The number of customers which generated revenue to us increased from five in FY2017 to seven in FY2018. For further details, please refer to the paragraph headed “Our customers – Customer concentration” in this section.

Our executive Directors consider that our registration as an Approved Specialist Contractor is consistent with our business strategy to enlarge our customer base as it will enable us to tender for public slope works projects directly from the Government. According to the F&S Report, public slope works projects in Hong Kong are generally initiated by the CEDD, Lands Department, Housing Authority, Highways Department and Water Supplies Department. Once we become an Approved Specialist Contractor, we will be eligible to tender for projects from these Government departments and hence broaden our sources of business.

(II) Our additional funding needs to fulfil the Specific Working Capital Requirement for being an Approved Specialist Contractor

The admission and retention on the List of Approved Specialist Contractors for Public Works is subject to certain minimum capital requirements being met from time to time taking into account our outstanding workload and available financial resources. Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, a contractor registered under the category of “Landslip preventive/remedial works to slopes/retaining walls” is required to (i) maintain a minimum employed capital of HK\$8,600,000; and (ii) having a minimum working capital (the “**Specific Working Capital Requirement**”) of either (a) HK\$8,600,000 if there are no outstanding contracts; or (b) the higher of HK\$8,600,000 or 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors. Please refer to the paragraph headed “Regulatory Overview – Contractor licensing regime and operation – Requirement for the application of registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works” in this prospectus for further details.

After becoming an Approved Specialist Contractor on probationary status, we will be eligible to tender for projects directly from the Government. Nevertheless, we will be subject to the limitation that we may take on not more than two Government contracts tendered with total outstanding value of works of not greater than HK\$114 million before we obtain a confirmed status for being an Approved Specialist Contractor. If we are successful in obtaining Government contracts with aggregate value of HK\$114 million after our registration as an Approved Specialist Contractor and assuming the contract period is approximately three years, we will have to reserve approximately HK\$3.8 million of working capital for satisfying the Specific Working Capital Requirement for such Government contracts.

Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, the combined value of uncompleted works on outstanding contracts for a financial year is determined based on the annual revenue to be derived from projects undertaken throughout that financial year. On this basis, as we estimate the working capital for satisfying the Specific annual Capital Requirement by the time we successfully become an Approved Specialist Contractor, we have made reference to the annual revenue to be recognised in FY2019 from (i) our projects on hand as at 1 January 2019; (ii) projects that were awarded to us from 1 January 2019 to the Latest Practicable Date; and (iii) the two Government contracts that we target to obtain. It is estimated that we will have to earmark HK\$22.2 million of working capital for satisfying our Specific Working Capital Requirement.

Our executive Directors consider that the above estimation is reasonable and supported by the fact that (i) the ending value of backlog as the Latest Practicable Date (i.e. approximately HK\$187.6 million) is higher than that as at 31 December 2018 (i.e. approximately HK\$155.5 million); and (ii) solely based on our existing projects and without taking into account our tendered projects and new tender

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opportunities available in FY2020, our revenue to be recognised in FY2020 is expected to be approximately HK\$147.3 million, which represents around 80.1% of our projected revenue for FY2019 (i.e. approximately HK\$184.0 million).

For illustrative purpose, the tables below set forth a breakdown of the working capital required by us for satisfying the Specific Working Capital Requirement:

(I) *Projects on hand as at 1 January 2019*

Project No. <small>(Notes 1 and 2)</small>	Combined annual value of uncompleted works <small>(Note 3)</small> HK\$'000	Working capital required <small>(Note 4)</small> HK\$'000
O1	44,114	4,411
O2	23,552	2,355
O3	11,922	1,192
O4	4,200	420
O5	3,321	332
O6	2,808	281
O7	22,759	2,275
O8	2,071	207
O9	2,165	217
O10	30,000	3,000
Completed Project 1	56	6
Completed Project 2	707	71
Completed Project 3	940	94
Total:	148,615	14,861

Notes:

- Projects O1 to O10 (as defined and discussed in the paragraph headed "Projects on hand" below in this section) were on-going as at the Latest Practicable Date.
- Completed Project 1 to 3 represent the projects that were on-going as at 1 January 2019 and were completed before the Latest Practicable Date.
- The combined annual value of uncompleted works represents the estimated revenue to be recognised from the relevant projects during FY2019 based on the estimated contract sum, and if applicable, the actual work orders received by our Group as at the Latest Practicable Date.
- The amount of specific working capital required is computed by multiplying 10% of the combined annual value of uncompleted works.

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(II) *Projects awarded from 1 January 2019 to the Latest Practicable Date*

Project No. <i>(Note 1)</i>	Combined annual value of uncompleted works <i>(Note 2)</i> <i>HK\$'000</i>	Working capital required <i>(Note 3)</i> <i>HK\$'000</i>
O11	16,464	1,646
O12	11,113	1,111
O13	5,635	564
O14	<i>_(Note 4)</i>	–
O15	<i>_(Note 4)</i>	–
O16	<i>_(Note 4)</i>	–
O17	1,129	113
O18	1,032	103
Total:	<u>35,373</u>	<u>3,537</u>

Notes:

- Projects O11 to O18 (as defined and discussed in the paragraph headed “Projects on hand” below in this section) were our projects on hand as at the Latest Practicable Date.
- The combined annual value of uncompleted works represents the estimated revenue to be recognised from the relevant projects during FY2019 based on the estimated contract sum, and if applicable, the actual work orders received by our Group as at the Latest Practicable Date.
- The amount of specific working capital required is computed by multiplying 10% of the combined annual value of uncompleted works.
- Projects O14 to O16 are expected to commence in March 2020, February 2020 and December 2019, respectively.

(III) *Two Government contracts that we target to obtain after becoming an Approved Specialist Contractor on probationary status*

Estimated total contract sum <i>HK\$'000</i>	Combined annual value of uncompleted works <i>(Note 1)</i> <i>HK\$'000</i>	Working capital required <i>(Note 2)</i> <i>HK\$'000</i>
114,000	38,000	3,800

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Notes:

1. Based on the assumptions that (i) the contract period of the two Government contracts which we expect to obtain is approximately three years; and (ii) the value of works to be performed by our Group remains the same in each year throughout the contract period, the combined annual value of uncompleted works of these Government contracts is computed by dividing the estimated total contract sum of HK\$114.0 million by three years, amounting to a combined annual value of uncompleted works of HK\$38.0 million.
2. The amount of specific working capital required is computed by multiplying 10% of the combined annual value of uncompleted works.

As discussed in the paragraph headed “(I) Commercial rationale for applying for the registration as an Approved Specialist Contractor – (iv) Our ability to obtain public sector projects as main contractor under the Government rating system” above in this section, the Government adopts a “formula approach” for tender evaluation of public sector projects. Under the “formula approach”, 60% of the overall score is attributable to the tender price while 40% of the overall score is calculated based on the tenderer’s performance rating under the Contractors’ Performance Index System and the tenderer’s safety rating based on its past accident rate under public works contracts. In general, the tender with the highest overall score will be awarded with the public sector project.

Pursuant to the Technical Circular (Works) No.4/2014, if a tenderer does not have a performance rating on a particular date, it shall be assigned an average performance rating based on the ratings of the other tenderers who have submitted a conforming tender. Given our Group will not have a performance rating under the Contractors’ Performance Index System immediately after becoming an Approved Specialist Contractor, our Group will be assigned an average performance rating at the beginning stage. Therefore, in respect of the first Government project that we tender as main contractor, we could only compete with other contractors in terms of tender pricing, which accounts for 60% of the overall score for tender evaluation of public sector projects.

As discussed in the paragraph headed “(I) Commercial rationale for applying for the registration as an Approved Specialist Contractor – (ii) Profitability as main contractor in public sector projects” above in this section, our Group will have to take up more project management and supervision works when we undertake public sector projects as main contractor in the future. During the Track Record Period, we performed substantial amount of site works in projects awarded by our customers with our in-house capacity. Going forward, we also intend to maintain the existing ratio of site works undertaken by our own labour which is in line with our past practice, Hence, our executive Directors expect that we would be able to generate profits from our Government projects through our mark-up margin for both (i) project management and supervision works; and (ii) site works in the projects.

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In particular, we have maintained a pool of skilled workers for performing various kinds of slope works throughout the Track Record Period and we currently plan to further expand our workforce to increase our in-house capacity. By giving priority to deploying our own workforce for site works, we are able to attain better cost control which, in turn, gives us flexibility in charging a more competitive pricing than other slope works contractors who heavily rely on their subcontractors for site works.

Further, during the initial stage after becoming an Approved Specialist Contractor, we intend to adopt a more competitive pricing strategy for our project management and supervision works in order to obtain our first Government project and build up our performance rating as soon as practicable. When main contractors determine their tender price for public sector projects, they would generally take into account the costs and mark-ups for both (i) project management and supervision works; and (ii) site works in the projects. In general, those main contractors which heavily rely on subcontractors derive most of their profits in the projects from project management and supervision works as they have subcontracted most of the site works. Given that we are able to generate more profits from site works as compared to those main contractors who heavily rely on their subcontractors, our executive Directors consider that it is in our commercial interest to charge a lower margin for our project management and supervision works as interim measure to enhance our prospect of obtaining projects from the Government.

In light of our ability to adopt a competitive pricing strategy for our services, our executive Directors consider that we will be able to compete with other main contractors in terms of tender pricing and obtain at least two Government contracts shortly after becoming an Approved Specialist Contractor.

For the purpose of fulfilling the Specific Working Capital Requirement and based on the above analysis, we will be required to earmark working capital of approximately HK\$22.2 million, among which, we have to reserve (i) HK\$14.9 million for our projects on hand as at 1 January 2019; (ii) HK\$3.5 million for our projects awarded from 1 January 2019 to the Latest Practicable Date; and (iii) HK\$3.8 million for the Government contracts that we expect to obtain after our registration as an Approved Specialist Contractor on probationary status.

The above estimation illustrates our working capital level for satisfying the Specific Working Capital Requirement of our existing and forecasted projects throughout FY2019, assuming we have become an Approved Specialist Contractor. Our working capital level required for satisfying the Specific Working Capital Requirement may vary from our estimation set out above by the time we are successfully registered as an Approved Specialist Contractor.

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Having considered our current available financial resources, the additional funding required to satisfy the Specific Working Capital Requirement and the liquidity needs for our daily operations (as discussed in the paragraph headed “Future plans and use of proceeds – Reasons for the Listing” in this prospectus), our executive Directors consider that we have the needs to obtain additional funding on top of our current available financial resources. In this regard, our executive Directors expect that a portion of the net proceeds from the Share Offer of approximately HK\$22.0 million will be used for satisfying the Specific Working Capital Requirement. In the event the level of working capital required for satisfying the Special Working Capital Requirement exceeds HK\$22.0 million, we will finance the shortfall in funds by using our own internal resources.

In the event that we are unable to obtain additional Government contracts, our executive Directors believe that with the proceeds from the Share Offer and due to reasons discussed in the paragraphs headed “Commercial rationale for applying for the registration as an Approved Specialist Contractor” and “Competitive strengths” above in this section, we will be able to obtain additional slope works contracts from other customers as replacement. In such case, we will apply the proceeds from the Share Offer in a similar manner as discussed in the paragraph headed “Future plans and use of proceeds” in this prospectus for satisfying the Specific Working Capital Requirement in relation to the additional contracts to be obtained by us.

(III) Eligibility and timing of our application as an Approved Specialist Contractor

Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, the admission and retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria. The following paragraphs set forth the details of these qualification criteria and how our Group is expected to fulfil each of these qualification criteria.

A) A Place of business in Hong Kong

An applicant for registration as an Approved Specialist Contractor is required to possess or set up in Hong Kong a place of business. Our Group has fulfilled such registration requirement as we have a place of business located at Room 2302-2303, Omega Plaza, 32-34A Dundas Street, Mongkok, Hong Kong.

B) Registration with the Buildings Department as a Registered Specialist Contractor

In order to apply for registration as an Approved Specialist Contractor, the applicant must be registered with the Buildings Department as a Registered Specialist Contractor under the sub-register of “site formation works” category. Our Group has fulfilled such registration requirement as

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our operating subsidiary, A-City Workshop, has been registered with the Buildings Department as a Registered Specialist Contractor under the category “site formation works” since June 2017.

C) ISO certification

Applicant for registration as an Approved Specialist Contractor must have obtained its ISO certification. Our Group has fulfilled such quality management requirement since our quality management system has been certified to satisfy the requirement of ISO 9001:2015 since January 2017.

D) Specific Working Capital Requirement

An applicant for registration as an Approved Specialist Contractor is required to (i) maintain a minimum employed capital of HK\$8,600,000; and (ii) having a minimum working capital of either (a) HK\$8,600,000 if there are no outstanding contracts; or (b) the higher of HK\$8,600,000 or 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors. For details on how our Group expects to fulfil the Specific Working Capital Requirement, please refer to the paragraph headed “(II) Our additional funding needs to fulfil the Specific Working Capital Requirement for being an Approved Specialist Contractor” above in this section.

E) Technical and management criteria

The Development Bureau adopts a scoring system in assessing the technical and management criteria for being a Registered Specialist Contractor. The applicant must achieve the minimum passing scores for individual or combined sections of the assessment. The table below sets forth

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the key qualification criteria in terms of technical and management requirements:

Qualification criteria	Specification of the criteria ^(Note)	How our Group is expected to fulfil the qualification criteria	Maximum score	Minimum passing score	Expected score of our Group
I)	Experience and performance on landslip preventive, remedial or formation works of slopes and/or retaining walls in areas immediately behind occupied structures, adjacent railway lines or public roads in the past three years	<p>The applicant completed landslip preventive measures (“LPM”) works satisfactorily on more than six sites in the past three years;</p> <p>The applicant completed LPM works satisfactorily on four or more sites, each with value higher than HK\$2.0 million, in the past three years; and</p> <p>The applicant completed LPM works satisfactorily on at least eight simultaneously active sites with total value of works higher than HK\$10.0 million in the past three years.</p>	45	23	30
		<p>Our Group completed landslip preventive measures (“LPM”) works satisfactorily on 25 sites and six sites for Project #01 and #04, respectively. Projects #01 and #04 were initiated by CEDD under the Landslip Prevention and Mitigation Programme;</p> <p>Our Group completed LPM works satisfactorily on eight sites and three sites, each with value higher than HK\$2.0 million, for Projects #01 and #04, respectively; and</p> <p>Our Group completed LPM works satisfactorily on 31 simultaneously active sites with total value of works higher than HK\$10.0 million for Projects #01 and #04.</p>			

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	Qualification criteria	Specification of the criteria <i>(Note)</i>	How our Group is expected to fulfil the qualification criteria	Maximum score	Minimum passing score	Expected score of our Group
II)	Management level staff	At least one full-time member of management level staff has a minimum of five years relevant local experience (gained within the past 10 years) in managing a construction firm plus a minimum two years of experience in managing multiple site contracts and LPM type works over the past five years.	Mr. Ho joined our operating subsidiary, A-City Workshop, as a director since September 2016. Prior to joining our Group, from November 2011 to August 2016, Mr. Ho had worked for another slope works construction company in Hong Kong as a site agent as his last position. For further details on the background of Mr. Ho, please refer to the paragraph headed "Directors and senior management" in this prospectus.	10	5	10
III)	Professional staff	At least one full-time member of staff with a relevant professional qualification (e.g. Registered Professional Engineers, member of the Hong Kong Institution of Engineers, etc.) and with a minimum of five years local experience in site formation or LPM type works.	Mr. Sieh was registered as a Registered Professional Engineer under the Engineers Registration Board and admitted as a member of the Hong Kong Institution of Engineers. Mr. Sieh joined our operating subsidiary, A-City Workshop, as a director since December 2016. Prior to joining our Group, Mr. Sieh had worked for another slope works construction company in Hong Kong, as a site agent from June 2011 to August 2016. For further details on the background of Mr. Sieh, please refer to the section headed "Directors and senior management" in this prospectus.	10	5	10

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	Qualification criteria	Specification of the criteria <i>(Note)</i>	How our Group is expected to fulfil the qualification criteria	Maximum score	Minimum passing score	Expected score of our Group
IV)	Technical staff	At least one full-time member of staff with a relevant degree from a Hong Kong university or equivalent and with a minimum of three years local experience in site formation or LPM-type works.	<p>Mr. Lau Chiu Ming, our project manager, obtained a bachelor's degree of civil engineering from the University of Wales Swansea, the United Kingdom, in July 2006.</p> <p>Mr. Lau joined our operating subsidiary, A-City Workshop, as a site agent in September 2017. Prior to joining our Group, from March 2010 to September 2017, Mr. Lau worked for an engineering firm in Hong Kong as the assistant resident engineer (geotechnical), with responsibility for the management and supervision of LPM works, as his last position.</p>	5	2	5
V)	Safety staff	At least one registered safety officer employed full time.	Our Group had one registered safety officer as at the Latest Practicable Date.	5	3	3

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Qualification criteria	Specification of the criteria ^(Note)	How our Group is expected to fulfil the qualification criteria	Maximum score	Minimum passing score	Expected score of our Group
VI) Availability of plant and equipment for LPM type works	The applicant owns at least seven types of the following machinery including: drilling rig, grout pump, shotcrete machine, excavator, hydraulic breaker, pneumatic drill, roller, crane truck, air compressor and generator (“Specified Machinery”).	As at the Latest Practicable Date, our Group owned three types of the Specified Machinery, namely two air compressors, one crane truck and one excavator. It is part of our business plans to acquire, among others, five additional types of Specified Machinery, including drilling rigs, grout pumps, shotcrete machine, pneumatic drill and generator, before applying to be an Approved Specialist Contractor. Therefore, by the time we submit our application, our Group is expected to possess eight types of the Specified Machinery.	10	5	5
Total:			<u>85</u>	<u>56</u>	<u>63</u>

Note: For illustrative purpose, the table sets out the qualifications criteria which is applicable to our Group and does not exhaustively list out all the alternative options for fulfilling the qualification criteria.

Based on the above analysis, our executive Directors consider that our Group will be able to fulfil each of the key qualification criteria once our Group has obtained additional funding for (i) satisfying the Specific Working Capital Requirement; and (ii) acquiring additional types of Specified Machinery. We currently intend to apply for the registration immediately after we have strengthened our financial capability and acquired the requisite additional types of Specified Machinery by around December 2019 under our expansion plans. On this basis, it is expected that we will submit our application by around December 2019. Based on our Directors’ experience and industry knowledge from their enquiries with other Approved Specialist Contractors, it will take approximately seven to nine months for our application to process and we expect to obtain our registration as an Approved Specialist Contractor by August 2020.

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Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, an applicant will be recommended for acceptance if (i) the aggregate total scores achieved is equal to or higher than 65% of the maximum scores, and (ii) the scores achieved in each of the qualification criteria set out above is overall higher than their respective minimum passing scores. Based on the above analysis, our expected total score is 63 which is higher than 65% of the total maximum score (i.e. 56). In addition, we are able to meet the minimum passing score of each of the qualification criteria as set out above. Therefore, our executive Directors consider that we will be capable of fulfilling the criteria for being an Approved Specialist Contractor.

The Legal Counsel advises that there will be no material legal impediments to our proposed registration as an Approved Specialist Contractor on probationary status based on the following factors:

- (i) the Legal Counsel reviewed and concurred with the basis of our executive Directors' assessment on our eligibility to fulfil the key criteria for being an Approved Specialist Contractor;
- (ii) we have not been subject to any prosecution or disciplinary action by the Government in relation to our registration with Buildings Department as a Registered Specialist Contractor under the sub-register of "site formation works" category since we obtained such registration in June 2017; and
- (iii) we have not been subject to any regulatory action by the Government in respect of occupational health and safety or environmental matters since our establishment.

(IV) Prospect of our application as an Approved Specialist Contractor

Our executive Directors are positive about our prospect of being successfully registered as an Approved Specialist Contractor taking into consideration:

- (i) as supported by the view of the Legal Counsel, we will be able to fulfil each of the key qualification criteria of being an Approved Specialist Contractor after acquiring the requisite working capital and machinery following the Listing as illustrated in the paragraph headed "(III) Eligibility and timing of our application as an Approved Specialist Contractor" above in this section;
- (ii) for FY2017, FY2018 and the five months ended 31 May 2019, we undertook nine, 11 and 11 public sector projects, respectively. From our participation in these public sector projects as subcontractor, we have accumulated in-depth understanding of the quality standards and technical specifications of various Government authorities, including the CEDD, the Lands Department, the Housing Authority, the Water

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Supplies Department and the Architectural Services Department. Our executive Directors consider that our track record and technical know-how accumulated from the public sector projects are conducive to our application as an Approved Specialist Contractor; and

- (iii) in respect of public sector projects, our customers are main contractors being registered on the List of Approved Specialist Contractors for Public Works. The performance of main contractors are rated under the Contractors' Performance Index System for public sector projects. The main contractors generally receive a performance evaluation report for each of its on-going public sector contracts at a three-month interval. The overall score of a contractor's performance report is derived from 11 different attributes (where applicable), including but not limited to workmanship, progress, site safety, environmental pollution control, attendance to emergency and attitude to claims. Based on the performance evaluation reports available from our customers, our customers (including Tai Kam Construction Engineering Company Limited, Customer D and Geotech Engineering Limited) have received satisfactory ratings in some of those public sector projects that we acted as their subcontractor. As a significant portion of site works in these projects were delegated to us by our customers, our executive Directors believe that the satisfactory performance ratings achieved by our customers were partly attributable to our Group's ability in fulfilling the quality standards and requirements of various Government authorities. As the Development Bureau reviews our application as an Approved Specialist Contractor, it will have access to our participation records in those public sector projects undertaken by our customers. In this regard, the aforesaid performance ratings attained by our customers are positive indication of our quality performance in public sector projects, which is likely to be considered favourably by the Development Bureau in evaluating our application as an Approved Specialist Contractor.

Under the Contractor Management Handbook – Revision B published by the Development Bureau, an application will be rejected if either (i) the individual score under either one of the qualification criteria, or (ii) the overall score achieved is below the relevant minimum passing score. In addition, as advised by the Legal Counsel, there is no maximum limit on the number of application to be made by an applicant for registration as an Approved Specialist Contractor, nor is there any restrictions or cooling-off period regarding re-submission of application by the applicant. During the review process, the Development Bureau may raise queries or require the applicant to provide additional information and relevant supporting documents to support its application.

As mentioned in the paragraphs above, as we submit our application after the Listing, our overall score and individual score under each qualification criteria are both expected to be higher than relevant minimum passing score. Therefore, our executive Directors consider that the rejection risk of our proposed application

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is remote. Even if the Development Bureau raises any queries on our application, our application will remain valid as long as we could address its queries with further submissions within the prescribed period. In the unlikely event that our first application fails, we will continue to re-submit our application after taking proper remedial actions for addressing comments from the Development Bureau regarding our application. Our executive Directors do not foresee any factors which may hinder our attempt to re-submit our applications in case our first application fails.

(V) Contingency plan for the use of our net proceeds if our first application for being an Approved Specialist Contractor is unsuccessful

Although we are positive on the prospect of our successful application as an Approved Specialist Contractor, our executive Directors consider that it is prudent for us to re-designate the net proceeds which had been reserved for satisfying the Specific Working Capital Requirement and apply them for other purposes as contingency if our first application is unsuccessful. While the contingency plan is our interim measure to better utilise our net proceeds, it is our ultimate goal to persist with subsequent application until we obtain the approval from the Development Bureau.

Regardless of the results of our first application, we will continue to identify new business opportunities and expand our customer base. During the Track Record Period and up to the Latest Practicable Date, we had made consistent effort in expanding and diversifying our customer base which can be demonstrated by the increase in the number of customers from five in FY2017 to seven in FY2018. Subsequent to 31 December 2018, we have further enlarged our customer base and established business relationship with Customer G.

Having considered (i) the continuous expansion and diversification in our customer base during the Track Record Period; (ii) our business growth as evidenced by the projected increase in our revenue from approximately HK\$111.2 million for FY2018 to approximately HK\$184.0 million for FY2019; and (iii) the forecasted growth of slope works market based on the F&S Report, our executive Directors expect that we will have more opportunities in undertaking additional slope works projects from both our existing and potential new customers. If our first application is unsuccessful, we will adopt the following interim measures to re-designate our net proceeds until our subsequent application is approved by the Development Bureau:

(i) Financing project up-front costs

We may experience net cash outflows as a result of project up-front costs at the preliminary stage of a project which include costs for installing temporary hoarding, performing site planning and surveying and setting up site offices. Our customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers or their authorised representatives before we issue an invoice to

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our customers. During the Track Record Period, depending on the scale of the projects, there was generally an average time period of two to six months from our first incurrence of up-front costs to the receipt of our first payment from our customers. During the Track Record Period, the average amount of up-front cost amounted to approximately 8.1% of the total project cost.

Our executive Directors consider that our liquidity needs for financing project up-front costs and expenses will further increase as we undertake additional projects on top of our present scale of operations. Therefore, as our contingency plan, we would apply part of the net proceeds for paying the up-front cost until our application for registration becomes successful.

(ii) Increasing our reserve for financing the issue of performance guarantees

Before we successfully become an Approved Specialist Contractor, we will continue to approach different construction contractors and discuss with them on the prospects of subcontracting the relevant works to us. Irrespective of the results of our first application, our executive Directors believe that we could leverage on our competitive strengths to solicit business opportunities from new customers of both public and private sector projects.

As discussed in the paragraph headed “4. Increasing our reserve for financing the issue of performance guarantees” in this section below, slope works contractors are generally required by new customers, with whom they have limited past business relationship, to take out performance guarantees. During the Track Record Period and up to the Latest Practicable Date, our Group had been awarded a total of seven projects which require us to take out performance guarantee. The aggregate estimated contract sum of these seven projects amounted to HK\$165.0 million. Our Group is expected to take out performance guarantee in the aggregate sum of HK\$16.5 million for the aforesaid projects. Our executive Directors consider that our funding needs for the issue of performance guarantees will increase as we actively approach more new customers for additional projects. Therefore, as our contingency plan, we would apply part of the net proceeds as reserve for financing the issue of performance guarantee for our future projects until our application for registration becomes successful.

Taking into account (i) our projects completed since 1 January 2019 and up to the Latest Practicable Date; and (ii) our projects on hand as at the Latest Practicable Date, our revenue is expected to increase from approximately HK\$111.2 million in FY2018 to approximately HK\$184.0 million in FY2019, representing a significant increase of 65.5%. In addition, we have tendered for nine projects with an aggregate tender amount of HK\$48.2 million as at the Latest Practicable Date and we also expect to obtain two Government projects after we become an Approved Specialist Contractor. In light of our proven track record, forecasted business growth, the expected increase in number

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of projects to be undertaken by us and growing market opportunities, our executive Directors believe that it is in our interest to apply part of our net proceeds for financing our project up-front costs and the issue of performance guarantee for our business expansion if our first application for registration is unsuccessful.

(VI) No material change in our business operations after our registration as Approved Specialist Contractor

Going forward, we will remain open to the prospect of acting either as a main contractor or subcontractor in slope works projects after obtaining our registration as an Approved Specialist Contractor. In line with our existing business operations, our Group will continue to give priority to deploying our own workers to perform slope works as long as our resources allow, irrespective of our roles in the project. On this basis, our executive Directors do not foresee any material change in our business operations after our registration as an Approved Specialist Contractor.

As aforementioned, some of our major customers have confirmed to us that they have no intent to cease inviting us to tender for their future projects after we become an Approved Specialist Contractor. Therefore, we expect that we will continue to receive tender invitations for subcontracting works from our major customers after we become an Approved Specialist Contractor. Depending on the scope of services and expected complexity of the project as well as our capability and available human resources, we will continue to respond to our customers' tender invitations by submitting our tender proposals.

Subsequent to our registration as an Approved Specialist Contractor, we will become eligible to tender for public sector projects directly from the Government as main contractor. Our executive Directors consider that we are competent to undertake public sector projects as main contractor, taking into account (i) our strengthened financial position after the Listing as we will be able to satisfy the Specific Working Capital Requirement with the net proceeds from the Share Offer; (ii) our track record and technical know-how accumulated from the public sector projects undertaken in the past; (iii) our executive Directors' qualifications in the engineering field and their experience in performing project management and supervision works for main contractor of public sector projects during their previous employments; and (iv) our enlarged pool of project management staff and skilled workers after the Listing.

2. Strengthening our manpower to increase our service capacity

Slope works are considered to be relatively labour-intensive in nature. Therefore, our executive Directors consider that a team of skilled workers equipped with appropriate knowledge and experience in performing different kinds of slope works is crucial to our continual success. In this regard, we intend to expand and strengthen our manpower by recruiting additional staff due to the following reasons:

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(i) *Increasing market demand for slope works and greater exposure to business opportunities following our registration as an Approved Specialist Contractor*

As aforementioned, our executive Directors consider that our proposed registration as an Approved Specialist Contractor will enhance our market position and give us greater exposure to business opportunities for slope works projects in Hong Kong. After becoming an Approved Specialist Contractor, our Group will be able to tender for public sector projects directly from the Government. As discussed in the paragraph headed “1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor – (I) Commercial rationale for applying for the registration as an Approved Specialist Contractor” above in this section, we expect we will obtain additional projects following our registration as an Approved Specialist Contractor. In this regard, our executive Directors consider that it is necessary for us to strengthen our project management staff in order to accommodate the need for additional project management works, taking into consideration:

- (i) pursuant to the contract terms of public sector project, main contractor is generally required to assign and station certain number of project management staff, including project manager, site agent, site engineer and site foreman, for such project on a full-time basis. In particular, the stationed staff in the project management team shall work full time on site during the site working hours. Failure to fulfil such requirement may adversely affect the Government’s assessment of the main contractor’s performance in the project. As at the Latest Practicable Date, all of our project management staff are assigned to handle more than one project simultaneously, and hence it will not be feasible to fulfil the aforesaid requirement unless we recruit additional project management staff;
- (ii) as compared to acting as subcontractor, a main contractor is generally responsible for a wider range of project management and supervision works. As at the Latest Practicable Date, the estimated revenue to be recognised from our projects on hand after the Track Record Period amounted to approximately HK\$264.6 million, which is higher than the value of our backlog as at 31 December 2017 (i.e. approximately HK\$168.7 million) and 31 December 2018 (i.e. approximately HK\$155.5 million), respectively. During the Track Record Period, we have continuously recruited additional project management staff to ensure sufficient capacity to supervise and manage our projects on hand. Nevertheless, our current scale of staff is merely sufficient to handle our projects on hand. If we plan to undertake additional projects (particularly as main contractor) in the future, our existing project management staff may not be able to devote sufficient time and attention to properly supervise and manage the site works undertaken by us and our subcontractors. Therefore, in order to maintain our service quality and efficiency, it is crucial for us to strengthen our manpower by recruiting additional project management staff.

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Further, our executive Directors consider that our registration as an Approved Specialist Contractor will strengthen our customers' confidence in our service capability and enhance our prospect of obtaining new projects from construction contractors and private property owners and developers. In light of the increasing market demand for slope works in Hong Kong and our plan to apply for registration as an Approved Specialist Contractor, our executive Directors consider that we will have greater exposure to more business opportunities for slope works projects in the future.

As at the Latest Practicable Date, our Group had 20 project management staff and 135 full-time site workers. Based on our current manpower resources, our executive Directors consider that it is necessary for us to strengthen our manpower in order to undertake additional slope works projects and to capture the potential business opportunities as aforementioned.

(ii) Increasing needs for manpower associated with the continuous growth in our business

For FY2017, FY2018 and the five months ended 31 May 2019, there were 12, 16 and 15 projects which contributed a total of approximately HK\$94.3 million, HK\$111.2 million and HK\$75.3 million to our revenue, respectively. In order to accommodate the increase in workload associated with the increase in number and scale of projects, our Group has continuously expanded our workforce and maintained our practice in giving priority to deploying our own workers for site works, as demonstrated by the increase in our number of employees from 76 as at 31 December 2017 to 86 as at 31 December 2018 and further to 160 as at the Latest Practicable Date.

As at the Latest Practicable Date, the estimated revenue to be recognised from our projects on hand after the Track Record Period amounted to approximately HK\$264.6 million, among which, approximately HK\$107.8 million is expected to be recognised as revenue in the seven months ending 31 December 2019. Having considered (i) the backlog value of our projects on hand to be recognised as revenue in the seven months ending 31 December 2019 (i.e. approximately HK\$107.8 million), (ii) the revenue recognised in the five months ended 31 May 2019 (i.e. approximately HK\$75.3 million), (iii) the revenue to be recognised in the seven months ending 31 December 2019 of one completed project (i.e. approximately HK\$0.9 million), and (iv) without taking into account any additional projects to be obtained by us in the remaining period of FY2019, we expect to generate revenue of approximately HK\$184.0 million in FY2019, which is significantly higher than our total revenue for each of FY2017 (i.e. approximately HK\$94.3 million) and FY2018 (i.e. approximately HK\$111.2 million).

Site workers

As at the Latest Practicable Date, our Group had 18 projects on hand, comprising 14 on-going projects and four projects which had been awarded to us but not yet commenced. The table below sets forth the monthly average number of site workers required for each of our on-going projects:

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Project No. <i>(Note 1)</i>	Date of commencement of our works	Date of completion of our works <i>(Note 2)</i>	Number of site workers required <i>(Note 3)</i>
O1	November 2017	November 2020	50
O2	November 2018	December 2019	28
O3	January 2019	February 2020	10
O4	October 2018	December 2019	2
O5	April 2018	December 2019	2
O6	June 2015	February 2020	2
O7	April 2017	December 2019	19
O8	June 2015	December 2019	2
O9	July 2017	February 2020	8
O10	January 2019	December 2019	20
O11	March 2019	February 2020	29
O12	March 2019	March 2020	8
O13	February 2019	February 2020	4
O17	October 2019	June 2020	<u>10</u>
Total:			<u><u>194</u></u>

Taking into account (i) the scope of works under the relevant contracts; (ii) project size; (iii) expected work schedule and complexity; (iv) actual or expected commencement date; and (v) estimated project duration, our executive Directors estimate that the monthly average number of site workers required for the four projects which had been awarded to us and are expected to commence between the fourth quarter of 2019 and early 2020 are as follows:

Project No. <i>(Note 1)</i>	Date of commencement of our works	Date of completion of our works <i>(Note 2)</i>	Number of site workers required <i>(Note 3)</i>
O14	March 2020	March 2021	25
O15	February 2020	February 2021	45
O16	December 2019	December 2020	25
O18	December 2019	November 2020	<u>20</u>
Total:			<u><u>115</u></u>

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Notes:

1. For further details on our projects on hand, please refer to the paragraph headed "Projects on hand" below in this section.
2. The expected completion date for a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.
3. The number of site workers required include workers from both our Group and our subcontractors.

As at the Latest Practicable Date, we have tendered for nine projects with an aggregate tender amount of HK\$48.2 million. The table below sets forth the details of these tendered projects:

Project No.	Private/ public sector	Expected date of release of tender result	Tender amount <i>HK\$'000</i>
T1	Private	Fourth quarter of 2019	8,178
T2	Private	Fourth quarter of 2019	1,280
T3	Private	Fourth quarter of 2019	13,457
T4	Private	Fourth quarter of 2019	160
T5	Public	Fourth quarter of 2019	20,000
T6	Private	Fourth quarter of 2019	504
T7	Private	Fourth quarter of 2019	732
T8	Private	Fourth quarter of 2019	1,050
T9	Private	Fourth quarter of 2019	2,809
			48,170

Currently, approximately 61.6% of the site workers involved in our on-going projects were deployed by us and the remaining workers were deployed by our subcontractors. Some of our on-going projects are expected to be completed by the fourth quarter of 2019, thereby releasing approximately 45 of our own workers who had been deployed for such projects. These 45 own workers will provide less than half of the workforce required for those projects that are expected to commence between the fourth quarter of 2019 and early 2020 (i.e. Projects O14, O15, O16 and O18) which require a total of 115 site workers. In respect of Project O17 which commenced in October 2019, our executive Directors estimate that we would perform the site preparation works between October and November 2019 and the main site works, which are more labour intensive, would begin by around December 2019 or January 2020. As we intend to adhere to our practice of performing substantial portion of site works with our own workers, our executive Directors believe that our existing manpower

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resources are only sufficient to cope with the needs of our projects on hand. We currently plan to deploy the additional 11 site workers to be recruited by 31 December 2019 to Projects O14, O15, O16 and O18.

In view of the aforesaid, our executive Directors believe that we have genuine and imminent need to expand our manpower considering (i) as at the Latest Practicable Date, we have tendered for nine projects with an aggregate tender amount of HK\$48.2 million. In particular, we have a relatively higher chance of obtaining Projects T2, T3 and T8 with an aggregate tender amount of HK\$15.8 million, which are expected to require 25 additional workers, given that we had received our customer's request to submit revised offer on our tender price after attending the first tender interview; (ii) we cannot assure that the work schedule of our on-going projects would not be extended as a result of additional work orders and/or variation orders from our customers; and (iii) it is imperative for our Group to adhere to our past practice and maintain sufficient workers to avoid over-reliance on our subcontractors for site works.

During the Track Record Period, the contracts with our customers were mainly on re-measurement basis. A re-measurement contract contains an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount and schedule of works to be carried out by us under a re-measurement contract is subject to the work orders placed by our customers during the contract period. Depending on the needs of our customers and the schedule of the project owners and other working parties, our customers may require us to optimise our work schedule or to complete certain additional works within a specified timeframe. In a majority of our projects completed during the Track Record Period, the actual amount of work orders placed by our customers had exceeded the estimated amount of works set out in the contracts. Depending on the amount of works involved and our customers' schedule, the manpower required for the projects may exceed our initial estimation and hence, in order to maintain our service efficiency and quality, we would have to deploy additional site workers to the projects to ensure smooth and timely delivery of our services. Based on the aforesaid, our executive Directors consider that the recruitment of additional site workers will give us greater flexibility in deploying sufficient workers to cope with the increase in work orders or any material change in the projects schedule in an efficient manner.

Our service quality largely depends on the skillsets and experience of the project management personnel and site workers involved. Our executive Directors believe that we have better control over the selection and deployment of our direct labour as compared to using the services of our subcontractors. During the recruitment process of our staff, our finance and administrative staff will evaluate the candidates through checking their registrations under the Construction Worker Registration Ordinance, verifying their prior employment history and, if necessary, arranging personal interviews with our executive Directors. Further, we also provide various types of internal trainings as well as courses organised by external parties to our employees in order to enhance their knowledge on the method and procedures of slope works, occupational safety and environmental matters. In

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light of the above, our executive Directors consider that we are in better position to select and deploy suitable staff for the work tasks as compared to relying on our subcontractors.

In addition, given that a profit mark-up is generally factored in the subcontracting fees charged by our subcontractors during the Track Record Period, our executive Directors consider that we will be able to maintain our profitability by expanding our services capacity for site works and maintaining the existing proportion of site works delegated to our subcontractors.

Under our expansion plan, we currently intend to hire an additional 25 site workers by 31 December 2020. Although some of our projects on hand are expected to be completed by late 2019 and early 2020 thereby releasing part of our manpower resources, our executive Directors believe that our recruitment plan is justified due to the following reasons:

- (i) Some of our projects on hand, including Projects O1, O14, O15, O16 and O18, are expected to last until late 2020 or early 2021. Based on information available, we estimate that these projects would require a total of 165 site workers.
- (ii) As mentioned above, we believe that we have a relatively higher chance of obtaining Projects T2, T3 and T8 given that we have received our customer's request to submit revised offer on our tender price after attending the first tender interview. We expect that Projects T2, T3 and T8 would be carried out in the first half of 2020 and require 25 additional site workers on average throughout the project.
- (iii) Apart from Projects T2, T3 and T8 we have tendered for six other projects with an aggregate tendered sum of HK\$32.4 million. Although the results of our tenders are pending and we cannot assure that we will be able to obtain each of these tendered projects, our executive Directors consider that it is prudent for us to have extra manpower capacity of 25 additional workers to cater for the manpower needs of these tendered projects.
- (iv) As discussed in the paragraph headed "1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor" above in this section, we currently plan to submit our application for registration as an Approved Specialist Contractor by around December 2019 and expect to successfully obtain the registration by August 2020. Following such registration, we target to tender for two Government projects with an aggregate estimated total contract sum of HK\$114 million. Our executive Directors consider that an additional 50 site workers would be required to carry out these two Government projects.
- (v) From 1 January 2019 up to the Latest Practicable Date, our Group had been awarded approximately HK\$184.4 million of new contract works and variation orders, which had already surpassed

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the total value of new contract works and variation orders awarded to us in the entire FY2018 (i.e. approximately HK\$98.1 million). In light of the forecasted growth in the slope works industry and our continuous effort to expand and diversify our customers, our executive Directors believe that we are capable of obtaining additional projects in 2020 on top of our present scale of operations.

Taking into account (i) our projects on hand which last until late 2020 or early 2021, (ii) Projects T2, T3 and T8 and other tendered projects, and (iii) two Government projects that we target to obtain after becoming an Approved Specialist Contractor, our executive Directors anticipate that we would need at least 265 site workers to cater for the manpower needs of the aforesaid projects. As at the Latest Practicable Date, we had a total of 135 full-time site workers. As we intend to adhere to our practice of performing substantial portion of site works (i.e. 65% or above) with our own workers, our executive Directors consider that we would need approximately 170 own site workers by the second half of 2020. Unless there is an expansion in our manpower, it is estimated that we will experience a shortfall of 35 own site workers if we intend to carry out the substantial portion of site works in the aforesaid projects with our own manpower. As such, we believe that our plan to hire an additional 25 site workers is justified.

Project management staff

Out of the 18 additional staff to be recruited by us in FY2019, five of them will be project management staff, consisting a project manager/site agent, a site engineer, a site foreman, a safety officer/supervisor and a labour officer. Our project management team is primarily responsible for the overall management of the project, including amongst others, overseeing the progress, budget and quality of services rendered.

During the Track Record Period, the average ratio between the number of our site foreman and our own site workers was approximately one to 24. We have maintained this workforce ratio to ensure that we can properly supervise the works of our workers and ensure that they are performed in conformance with our customers' requirements and specifications. Currently, each of our existing site foreman would have to monitor on average 26 site workers. As a result, as we plan to recruit additional site workers after the Listing, our existing site foreman may not be able to devote sufficient time and attention to properly supervise and manage the works undertaken by us. Therefore, our executive Directors consider that we have the business needs to recruit additional project management staff even before we become an Approved Specialist Contractor.

In light of the (i) potential additional projects to be obtained by us in the remaining period of FY2019, in particular Projects T2, T3 and T8; (ii) forecasted growth in the slope works industry in Hong Kong; (iii) the enhanced business prospects brought by our proposed registration as an Approved Specialist Contractor; and (iv) an expected additional workload for project management and supervision works of acting as main contractor, our

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executive Directors consider that it is necessary and imminent to increase our manpower in order to undertake additional projects on top of our present scale of business operations.

(iii) Maintaining sufficient in-house capacity for our future projects

We possess our own direct labour resources for performing slope works. Depending on the availability of our labour resources and the types of specialised works involved, we may also subcontract some of our works to subcontractors.

Our subcontracting expenses increased from approximately HK\$20.5 million for FY2017 to approximately HK\$24.8 million for FY2018, representing an increase of approximately 21.3%. Our subcontracting expenses also increased from approximately HK\$10.6 million for the five months ended 31 May 2018 to approximately HK\$17.9 million for the five months ended 31 May 2019, representing an increase of approximately 67.8%. The increment in our subcontracting expenses was mainly attributable to more slope works being outsourced to our subcontractors resulting from the increase in our workload associated with the business growth during the aforesaid periods.

Taking into account (i) our projects completed since 1 January 2019 and up to the Latest Practicable Date and (ii) projects on hand as at the Latest Practicable Date, our revenue is expected to increase from approximately HK\$111.2 million in FY2018 to approximately HK\$184.0 million in FY2019, representing a significant increase of 65.5%. In light of our forecasted business growth, our executive Directors consider we will have to rely more on our subcontractors for site works unless we are able to further expand our workforce.

Given that a profit mark-up is generally factored in the subcontracting fees charged by our subcontractors during the Track Record Period, our executive Directors consider that we will be able to maintain our profitability by expanding our services capacity for handling additional slope works, thereby reducing our needs for subcontracting services and the associated costs incurred therefrom. By maintaining sufficient in-house labour for undertaking additional works, we believe that we will be able to maintain our profitability or offer more competitive pricing to our customers as we could have better control on our operating costs, thereby strengthening our chance for obtaining new contracts.

In line with our past strategy, our executive Directors consider that by maintaining a pool of skilled workers, we could minimise the risk of disruption to our operations that may result from potential unavailability of subcontracting services at commercially acceptable terms and/or according to our work schedules. Further, by increasing our in-house capacity, it would give us greater flexibility in (i) deploying sufficient workers to meet the work schedule of our customers; (ii) matching appropriate employees with suitable work tasks based on their skills, work experience and trainings; and (iii) preserving our project management efficiency and service quality.

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(iv) Our recruitment plan

We currently intend to apply a portion of our net proceeds from the Share Offer of approximately HK\$11.3 million to expand our service capacity by recruiting the following personnel according to the timeframe set forth below:

	From the Listing Date to 31 December 2019	For the six months ending 30 June 2020	For the six months ending 31 December 2020	For the six months ending 30 June 2021	Total
Project manager/site agent	1	–	–	–	1
Site engineer	1	–	–	–	1
Site foreman	1	–	1	–	2
Safety officer/supervisor	1	–	–	–	1
Labour officer	1	–	–	–	1
Crane truck operator	1	–	–	–	1
Site worker	11	–	14	–	25
Administrative staff	1	–	1	–	2
	<u>18</u>	<u>–</u>	<u>16</u>	<u>–</u>	<u>34</u>

Types of personnel to be recruited	Number of staff	Approximate annual salary per staff HK\$
Project manager/site agent	1	624,000
Site engineer	1	264,000
Site foreman	2	348,000
Safety officer/supervisor	1	528,000
Labour officer	1	180,000
Crane truck operator	1	240,000
Site worker	25	330,000
Administrative staff	2	240,000

For further details on the roles and responsibilities of the above personnel, please refer to the paragraph headed “Operation flow – Formation of project management team” in this section.

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The table below sets forth a breakdown of our projects undertaken during the Track Record Period based on the proportion of site works delegated to our subcontractors:

Proportion of site works delegated to our subcontractors	No. of projects undertaken in		
	FY2017	FY2018	Five months ended 31 May 2019
Nil	1	2	3
Below 10%	3	2	2
10% to below 30%	4	4	2
30% to below 50%	1	3	4
50% to below 70%	2	2	1
70% to below 90%	1	2	2
Over 90%	0	1	1
Total	12	16	15

Based on the above table, most of the projects undertaken by us during the Track Record Period involved subcontracting. Although we had expanded our work force during the Track Record Period, as evidenced by the increase in our average monthly number of workers from 72 for FY2017 to 77 for FY2018, we had to engage subcontractors in order to cope with the continuous growth in our business operation during the same periods. In particular, in three and five of the projects undertaken by us in FY2017 and FY2018 (equivalent to approximately 25.0% and 31.3% of the number of projects undertaken in the respective financial year) respectively, we had delegated more than half of the site works to our subcontractors due to the limitation of our own labour resources at the relevant time. In particular, the number of projects with 30% to less than 70% of site works delegated to our subcontractors increased from three in FY2017 to five in each of FY2018 and the five months ended 31 May 2019 and the number of projects with 70% or above of site works delegated to our subcontractors increased from one in FY2017 to three in each of FY2018 and the five months ended 31 May 2019. Besides, the proportion of subcontracting expenses in our cost of services increased from approximately 25.3% for the five months ended 31 May 2018 to approximately 29.2% for the five months ended 31 May 2019. Going forward, in light of the expected growth in our revenue for FY2019 as compared to FY2017 and FY2018 as well as the business opportunities available to us after we become an Approved Specialist Contractor, our executive Directors consider that it is crucial for us to expand our work force in order to maintain our in-house capacity to perform site works and avoid over-reliance on our subcontractors for additional projects in the future.

In relation to site planning and surveying in our projects, the relevant works are either carried out by our executive Directors who are Registered Professional Engineers under the Engineers Registration Board or engineers arranged by our customers pursuant to our contra-charge arrangements with such customers. Going

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forward, we expect that our workload in respect of site planning and surveying will increase as we obtain more projects from our customers, in particular, those Government projects that we act as main contractor. The recruitment of additional project management staff will ensure a better work allocation among our project management team and reduce our reliance on our customers and/or third party professionals in carrying out site planning and surveying in our future projects.

For illustration purpose, the table below sets forth a hypothetical analysis of our estimated net cost savings, gross profit and gross profit margin for FY2017, FY2018 and the five months ended 31 May 2019, assuming the additional staff that we plan to recruit had been deployable by our Group during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Estimated net cost savings			
– Subcontracting expenses and site planning and surveying charges reduced	13,621	15,956	7,855
Less			
– Additional staff costs	(10,255)	(11,280)	(5,023)
– Additional depreciation expenses, repair and maintenance cost and insurance costs of machinery	(1,523)	(2,346)	(1,163)
– Additional costs of materials ^(Note 1)	(820)	(1,006)	(776)
	<u>1,023</u>	<u>1,324</u>	<u>893</u>
Estimated gross profit ^(Notes 2 and 3)	19,886	22,909	15,127
Estimated gross profit margin ^(Note 4)	21.1%	20.6%	20.1%

Notes:

1. The estimated additional costs of materials represent the additional costs of materials that would be incurred by us for procuring the materials in relation to those works outsourced to our subcontractors.
2. The estimated gross profit is calculated by adding the estimated net cost savings and the gross profit of the respective year/period as set out in the consolidated statements of profit or loss and other comprehensive income of the Accountants' Report as set out in Appendix I to this prospectus.
3. Our gross profit is approximately HK\$18.9 million, HK\$21.6 million and HK\$14.2 million for FY2017, FY2018 and the five months ended 31 May 2019, respectively.

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4. Our gross profit margin is 20.0%, 19.4% and 18.9% for FY2017, FY2018 and the five months ended 31 May 2019, respectively.

As illustrated in the above hypothetical analysis, if the additional staff that we plan to recruit had been deployable by our Group during the Track Record Period:

- our estimated net cost savings for FY2017 would be approximately HK\$1.0 million, which would result in an estimated increase in our gross profit of approximately 5.4% from approximately HK\$18.9 million to approximately HK\$19.9 million. Accordingly, our estimated gross profit margin would increase by approximately 1.1 percentage point from approximately 20.0% to approximately 21.1%;
- our estimated net cost savings for FY2018 would be approximately HK\$1.3 million, which would result in an estimated increase in our gross profit of approximately 6.1% from approximately HK\$21.6 million to approximately HK\$22.9 million. Accordingly, our estimated gross profit margin would increase by approximately 1.2 percentage point from approximately 19.4% to approximately 20.6%; and
- our estimated net cost savings for the five months ended 31 May 2019 would be approximately HK\$0.9 million, which would result in an estimated increase in our gross profit of approximately 6.3% from approximately HK\$14.2 million to approximately HK\$15.1 million. Accordingly, our estimated gross profit margin would increase by approximately 1.2 percentage point from approximately 18.9% to approximately 20.1%.

We have selected three of our on-going projects which heavily involved the use of subcontractors, namely Project O7, Project O10 and Project O11 (details of which are set out in the paragraph headed “Projects on hand” below in this section), to illustrate the estimated improvement in our gross profit margin under the scenario where all the site works involved were carried out by our own workers. In the hypothetical cost-saving analysis below, we have assumed that all

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the site workers deployed by our subcontractors to these three projects had been replaced by our own workers during the five months ended 31 May 2019:

	Project O7 <i>HK\$'000</i>	Project O10 <i>HK\$'000</i>	Project O11 <i>HK\$'000</i>
Estimated net cost savings			
– Subcontracting expenses	2,948	2,637	1,309
– Site planning and surveying charges reduced	737	660	327
Less			
– Additional staff costs ^(Note 1)	921	824	409
– Additional depreciation expenses, repair and maintenance cost and insurance costs of machinery ^(Note 1)	1,658	1,484	736
– Additional costs of materials ^(Note 2)	737	659	327
	369	330	164
 Actual gross profit margin during the five months ended 31 May 2019 ^(Note 3)	 23.4%	 19.0%	 10.3%
 Estimated gross profit margin during the five months ended 31 May 2019 without the use of subcontractors	 25.9%	 22.4%	 15.8%
 Estimated improvement in gross profit margin during the five months ended 31 May 2019	 2.5 percentage points	 3.4 percentage points	 5.5 percentage points

Notes:

1. We have taken into account the additional staff recruited and additional machinery acquired with our proceeds on the Share Offer.
2. The estimated additional costs of materials represent the additional costs of materials that would be incurred by us for procuring the materials in relation to those works outsourced to our subcontractors.
3. The actual gross profit margin represents the gross profit margin attributable to each of these projects for the five months ended 31 May 2019.

Based on the above hypothetical analysis, if the site workers deployed by our subcontractors to Project O7, Project O10 and Project O11 had been fully replaced by our own workers during the five months ended 31 May 2019, it would have resulted in an improvement of 2.5 to 5.5 percentage points in our gross profit margin of these projects during the same period. As such, our

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executive Directors believe that we could improve our profitability by further strengthening our in-house capacity for site works and reducing our needs for subcontracting services.

The primary objective of our planned recruitment is to ensure sufficient in-house capacity in order to maintain the existing ratio of site works undertaken by our own labour. We currently plan to recruit the additional staff to cope with the expected increase in workload associated with the additional projects to be obtained from the Government, construction contractors and private property owners and developers. Going forward, we will continue to engage our subcontractors to supplement our service capacity when necessary and hence we do not foresee any significant reduction in our subcontracting expenses in light of the expected growth in our business in the future.

(v) Suitable timing for strengthening our manpower

Our executive Directors believe that it is currently the suitable timing for our Group to strengthen our manpower and increase our service capacity due to the following reasons:

- based on past experience, during the tender stage, our customers generally request us to submit our proposal including the number and credentials of staff who will involve in the project so as to assess our in-house service capacity. Our executive Directors consider that customers generally favour towards slope works contractors with stronger in-house service capacity as it may facilitate project management and implementation. As aforementioned, our Group expects there will be a growth in business opportunities associated with the increasing market demand for slope works in Hong Kong as stated in the F&S Report and the enhanced business prospects brought by our proposed registration as an Approved Specialist Contractor after the Listing. In order to strengthen our service capacity for capturing these potential business opportunities and increase the competitiveness of our tenders for upcoming projects, our executive Directors consider that we have the need to strengthen our manpower;
- we generally take into account, among other factors, the availability of our manpower when determining our tender price. In line with our past strategy, our executive Directors consider that with an enlarged pool of skilled workers and greater in-house capacity, we will have greater flexibility to determine our tender price and offer a more competitive pricing to our customers when necessary;
- according to the F&S Report, the demand for slope works in Hong Kong will continue to grow at a CAGR of 7.4% from 2019 to 2023, reaching HK\$3,875.8 million in 2023. In view of (i) forecasted growth in the slope works industry in Hong Kong, (ii) our business growth during the Track Record Period, and (iii) our plan to apply for

registration as an Approved Specialist Contractor which will entitle us to tender for projects directly from the Government and enhance our prospect of obtaining new projects from construction contractors and private property owners and developers, our executive Directors consider that it is vital to strengthen our manpower in order to capture the future business opportunities; and

- as the recruitment process takes times, it is not practicable for us to recruit the required staff only after we are awarded with new projects from our customers. Since the quality of our site works largely depends on the skillsets and experience of our workers, we have been selective in choosing the suitable candidates. During the recruitment process, which generally takes around one to two months, our finance and administrative staff will evaluate the candidates through checking their registrations under the Construction Worker Registration Ordinance, verifying their prior employment history and, if necessary, arranging personal interviews with our executive Directors. In respect of project management staff who are responsible for overseeing our project implementation, it may take around one to two months to complete the recruitment process. Typically, we are required to commence our works within one to four weeks after the customers award the projects to us. Therefore, if a mid-to-large scale project commences shortly after it is awarded to us, we may not be able to identify and hire suitable staff with the required skills and experience within a relatively short period of time or on commercial terms acceptable to us. In the event we are unable to deploy sufficient manpower to handle the projects awarded to us, this will adversely affect our reputation, profit margin or may even result in potential liability on us for any project delay.

3. Strengthening our machinery

Our executive Directors consider that it is crucial for us to strengthen our machinery due to the following reasons:

(i) Increase our capacity and efficiency for performing slope works

During the Track Record Period, we generally required our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers. Our executive Directors believe that the purchase of additional machinery will enable us to cope with our business development, increase our overall efficiency and capacity in performing works and strengthen our ability to cater for the different needs and requirements of various customers.

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In light of (i) our upcoming qualification to tender for public sector projects from the Government, and (ii) our enhanced business prospects in obtaining additional projects from construction contractors and private property owners and developers after we become an Approved Specialist Contractor, it is expected that the number of projects to be undertaken by us will increase in the future. As such, our executive Directors consider that we have the business needs to acquire additional machinery in order to fulfil our future operation needs.

(ii) Technical requirements of being an Approved Specialist Contractor

As aforementioned, we currently plan to apply for registration as an Approved Specialist Contractor. Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, one of the technical requirements for becoming an Approved Specialist Contractor is that the applicant shall own at least seven types of the following machinery including: drilling rig, grout pump, shotcrete machine, excavator, hydraulic breaker, pneumatic drill, roller, crane truck, air compressor and generator (the “**Specified Machinery**”).

As at the Latest Practicable Date, we owned two air compressors, one crane truck and one excavator. For further details, please refer to the paragraph headed “Machinery and motor vehicles” below in this section. In order to fulfil the aforementioned technical requirement as an Approved Specialist Contractor and to cope with our business development, our executive Directors intend to apply part of our net proceeds from the Share Offer to purchase certain types of the Specified Machinery.

(iii) Accommodate the transportation needs of our project management staff and site workers

We generally arrange transportation for our project management staff and site workers among different work sites with our own motor vehicles. As at the Latest Practicable Date, our Group owned 12 motor vehicles for such transportation arrangement. We currently plan to acquire five additional motor vehicles to accommodate the increase in our transportation needs associated with the planned expansion of our manpower and the expected increase in the number of projects to be undertaken by us. As at 31 December 2017, 31 December 2018, 31 May 2019 and the Latest Practicable Date, the number of our full-time site workers was 60, 67, 130 and 135, respectively, whilst the number of our project management staff was 12, 15, 20 and 20, respectively. If our fleet of motor vehicles are fully occupied or unavailable at the relevant times, we would procure transportation services from third party in order to match with our project schedules. Besides, we intend to recruit an additional of 32 project management staff and site workers by 30 June 2021 with our net proceeds. Further, our projected revenue increases from approximately HK\$111.2 million for FY2018 to approximately HK\$184.0 million for FY2019. Having considered (i) the increase in number of our project management staff and site workers, (ii) the expected increase in the number of projects to be undertaken; and (iii) our disposal of five

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motor vehicles during the Track Record Period due to their ages and conditions, our Group plans to acquire five additional motor vehicles to accommodate the transportation needs of our employees.

Further, we expect that our enlarged workforce will be assigned to carry out works at a larger number of work sites. In particular, most of the projects undertaken by us during the Track Record Period involved multiple work sites individually. Taking into account the projected increase in the number of site visits required for our additional projects, our executive Directors consider that the current capacity of our motor vehicles is unable to accommodate the expected increase in our transportation needs. Our executive Directors consider that the acquisition of additional motor vehicles will enable us to achieve greater flexibility in the deployment and transportation of our staff to different work sites to carry out their works.

In addition, according to the main contract of public sector slope works projects, main contractors are generally required to provide certain number of motor vehicles for the exclusive use of the Government-appointed engineering consultants and their staff to facilitate their performance in the projects. There are specific requirements regarding the motor vehicles to be deployed by the main contractors in these projects, including seating capacity, engine capacity, age, environmental impact and equipment/facilities.

It is our plan to apply for registration as an Approved Specialist Contractor after the Listing so that we will be eligible to tender for public sector projects as main contractor. As such, our executive Directors consider that it is justifiable for us to acquire additional motor vehicles in order to fulfil the aforesaid requirement regarding the provision of motor vehicles when we undertake public sector projects as main contractor in the future.

(iv) Our plan for acquisition of machinery

Based on the reasons aforementioned, we currently intend to apply a portion of our net proceeds from the Share Offer of approximately HK\$4.7 million to acquire the following machinery in December 2019 before we submit our application for registration as an Approved Specialist Contractor in December 2019:

Type of machinery	Number of machinery	Use of machinery	Acquisition cost per unit HK\$	Expected useful life
Drilling rig	4	Mainly for performing drilling works	60,000	five years
Grout pump	3	Mainly for mixing and pumping of cement grout	50,000	five years
Shotcrete machine	1	Mainly for spraying concrete	120,000	five years
Pneumatic drill	1	Mainly for rock drilling	50,000	five years
Crane truck	1	Mainly for lifting and moving heavy materials	500,000	five years

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Type of machinery	Number of machinery	Use of machinery	Acquisition cost per unit <i>HK\$</i>	Expected useful life
Air compressor	4	Mainly for removing the excavated material by air lifting method from drilling and shotcreting operations	500,000	five years
Generator	2	Mainly for providing electricity	150,000	five years
Motor vehicle	5	Mainly for transporting our project management staff and site workers between different work sites	250,000	three years

We intend to finance the acquisition of the above machinery solely with our net proceeds from the Share Offer. Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, applicant for being an Approved Specialist Contractor is only required to own at least seven types of the Specified Machinery. Therefore, there is no compulsory requirement for the applicant to own all ten types of the Specified Machinery listed out in the Contractor Management Handbook.

As at the Latest Practicable Date, our Group owned three types of the Specified Machinery, namely two air compressors, one crane truck and one excavator. After our planned acquisition of five additional types of Specified Machinery, namely drilling rigs, grout pumps, shotcrete machine, pneumatic drill and generators, our Group will own in total eight types of the Specified Machinery so that we could fulfil the technical requirement regarding the ownership of Specified Machinery as an Approved Specialist Contractor.

(v) Reasons for using equity financing to finance the acquisition of machinery rather than taking out finance leases

Our executive Directors consider that it is more favourable for our Group to use equity financing to finance the acquisition of machinery rather than taking out finance leases mainly due to the following reasons:

- (i) as normal practice, banks would require our Controlling Shareholders to provide personal assets or personal guarantee to secure our Group's performance obligations under the finance leases, which, in turn, will increase the level of financial reliance on our Controlling Shareholders;
- (ii) each of the objectives in our expansion plan are complementary to each other and represent an integral initiative to broaden our income source. The whole expansion plan will strengthen our service capacity to capture the forecasted growth in demand for slope works in Hong Kong. For instance, the acquisition of additional types of Specified Machinery will facilitate our application to become an Approved Specialist Contractor. On the other hand, after being registered as an Approved Specialist Contractor, we expect to obtain additional contract works which, in turn, will increase our machinery and manpower needs.

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Even if we managed to acquire additional machinery through finance leases, we would not be able to enhance our overall service capacity unless it was matched with an increase in our working capital for maintaining our qualification as an Approved Specialist Contractor and financing the issue of performance guarantees as well as an expansion in our manpower resources. In deciding to proceed with equity financing, our executive Directors believe that it is the only option for us to obtain sufficient funding in financing our entire expansion plan, as discussed in details in the paragraph headed “Future plans and use of proceeds – Reasons for Listing” in this prospectus. By financing our expansion plan with the net proceeds from the Listing, our Group could ensure that the various objectives of our expansion plan could be carried out simultaneously and in a coordinated manner, thereby minimising the risk of timing mismatch in their implementations; and

- (iii) finance leases are subject to repayment obligations for the principal amount and associated interest expenses. The increase in our indebtedness level and gearing ratio may adversely affect our Group’s financial performance and liquidity.

4. Increasing our reserve for financing the issue of performance guarantees

Our executive Directors consider that it is imperative for us to increase our reserve for financing the issue of performance guarantees in order to broaden our customer base and enhance our prospects in obtaining additional projects.

(i) Requirement for performance guarantee during the two years ended 31 December 2018

Geotech Engineering Limited was one of our new customers for FY2018. In 2018, Geotech Engineering Limited awarded three projects with estimated contract sum of HK\$6.0 million (“**Project F1**”), HK\$20.0 million (“**Project F2**”) and HK\$30.0 million (“**Project F3**”) to our Group, respectively. During our negotiation with Geotech Engineering Limited for potential business opportunities, we were informed by Geotech Engineering Limited that it would require new subcontractor with whom they have limited past business relationship to take out performance guarantee for projects awarded by them. Pursuant to the contract terms of these projects, we were required to provide performance guarantee issued by banks or insurance companies in favour of Geotech Engineering Limited. When arranging with banks or insurance companies for the issuance of performance guarantee in favour of our customer, a pledged deposit equivalent to a certain percentage (i.e. 30%) of the performance guarantee is normally required to be placed with the bank or insurance company.

During our negotiation with Geotech Engineering Limited for Project F1, Geotech Engineering Limited agreed to waive the performance guarantee requirement under the contract, and instead required us to issue a cheque in the sum of HK\$0.6 million (equivalent to the full amount of the performance

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guarantee otherwise required) which would be held in the custody of Geotech Engineering Limited to secure our performance of the project. The cheque was released to us after the completion of Project F1. We had agreed to issue the cheque in favour of Geotech Engineering Limited to secure our project performance mainly because the estimated contract sum of Project F1 is relatively small and thus the amount of cheque security required (i.e. HK\$0.6 million) would not impose any significant financial impact on us.

In respect of Project F2, we had arranged with an insurance company for issuing a performance guarantee in the amount of 10% of the estimated contract sum of Project F2 (i.e. HK\$2.0 million) in favour of Geotech Engineering Limited. The performance guarantee is secured by (i) personal guarantees provided by our Controlling Shareholders, Mr. Ho and Mr. Sieh; and (ii) a pledged deposit in the sum of HK\$0.6 million (equivalent to 30% of the amount of the performance guarantee) placed by us with the insurance company.

In respect of Project F3, we had arranged with an insurance company for issuing a performance guarantee in the amount of 10% of the estimated contract sum of Project F3 (i.e. HK\$3.0 million) in favour of Geotech Engineering Limited. The performance guarantee is secured by (i) personal guarantees provided by our Controlling Shareholders, Mr. Ho and Mr. Sieh; and (ii) pledged deposit in the sum of HK\$1.0 million (equivalent to one-third of the amount of the performance guarantee) placed by us with the insurance company.

(ii) Performance guarantee requirement for projects awarded after 31 December 2018

Subsequent to 31 December 2018, our Group was awarded with three projects by Geotech Engineering Limited and one project by a new customer for FY2019, namely Customer G, through tender process upon their invitations. We were required to take out performance guarantee for such projects. The following table sets forth the details of these projects:

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Project No.	Customer	Nature and site of the project	Estimated contract sum <i>HK\$'000</i>	Percentage of estimated contract sum required as performance guarantee	Amount of performance guarantee <i>HK\$'000</i>
Project F4	Geotech Engineering Limited	Various locations in Hong Kong	20,000	10%	2,000
Project F5	Geotech Engineering Limited	Various locations in Hong Kong	41,000	10%	4,100
Project F6	Geotech Engineering Limited	Various locations in Kowloon and New Territories	28,000	10%	2,800
Project G1	Customer G	Tuen Mun, Yuen Long, North district, Tai Po and Shatin	20,000	10%	<u>2,000</u>
Total:					<u><u>10,900</u></u>

In respect of Project F4, we had arranged with an insurance company for issuing a performance guarantee in the amount of 10% of the estimated contract sum of Project F4 (i.e. HK\$2.0 million) in favour of Geotech Engineering Limited. The performance guarantee is secured by a cash collateral in the sum of HK\$0.8 million (equivalent to 40% of the amount of the performance guarantee) placed by us with the insurance company.

As at the Latest Practicable Date, we were in the course of arranging the performance guarantee for Projects F5 and F6. Based on our correspondence with Geotech Engineering Limited and the relevant contracts, we are expected to take out performance guarantee by the first quarter of 2020 for Projects F5 and F6.

In respect of Project G1, we had arranged with an insurance company for issuing a performance guarantee in the amount of 10% of the estimated contract sum of Project G1 (i.e. HK\$2.0 million) in favour of Customer G. The performance guarantee is secured by (i) personal guarantees provided by our Controlling Shareholders, Mr. Ho and Mr. Sieh; and (ii) pledged deposit in the sum of HK\$0.7 million (equivalent to 35% of the amount of the performance guarantee) placed by us with the insurance company.

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(iii) Performance guarantee requirement for future projects

According to the F&S Report, slope works contractors are generally required by new customers, with whom they have limited past business relationship, to take out performance guarantees. The performance guarantee requirement is generally adopted by contractors to safeguard the performance and service quality of their new subcontractors. As our Group continues to explore new business opportunities and enlarge our customer base, our executive Directors anticipate that we will encounter more potential customers which require performance guarantees. With the aim to further enlarge our customer base and capture a larger market share in the slope works industry in Hong Kong, we currently intend to apply a portion of the net proceeds from the Share Offer of approximately HK\$2 million to satisfy the performance guarantee requirement for future projects.

Implementation of business strategies

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

DESCRIPTION OF OUR SERVICES

During the Track Record Period, our slope works mainly comprised (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works. If so requested by our customer, we may also assist our customer in carrying out ground investigation and preparing foundation designs of flexible barrier system. During the Track Record Period and up to the Latest Practicable Date, we did not undertake standalone slope works maintenance project.



Drilling and installation of soil nails



Construction of retaining walls

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Installation of debris flow protection rigid barriers



Construction of flexible barrier system



Installation of raking drains



Installation of wire meshes and mats for erosion control



Construction of concrete maintenance stairway/access



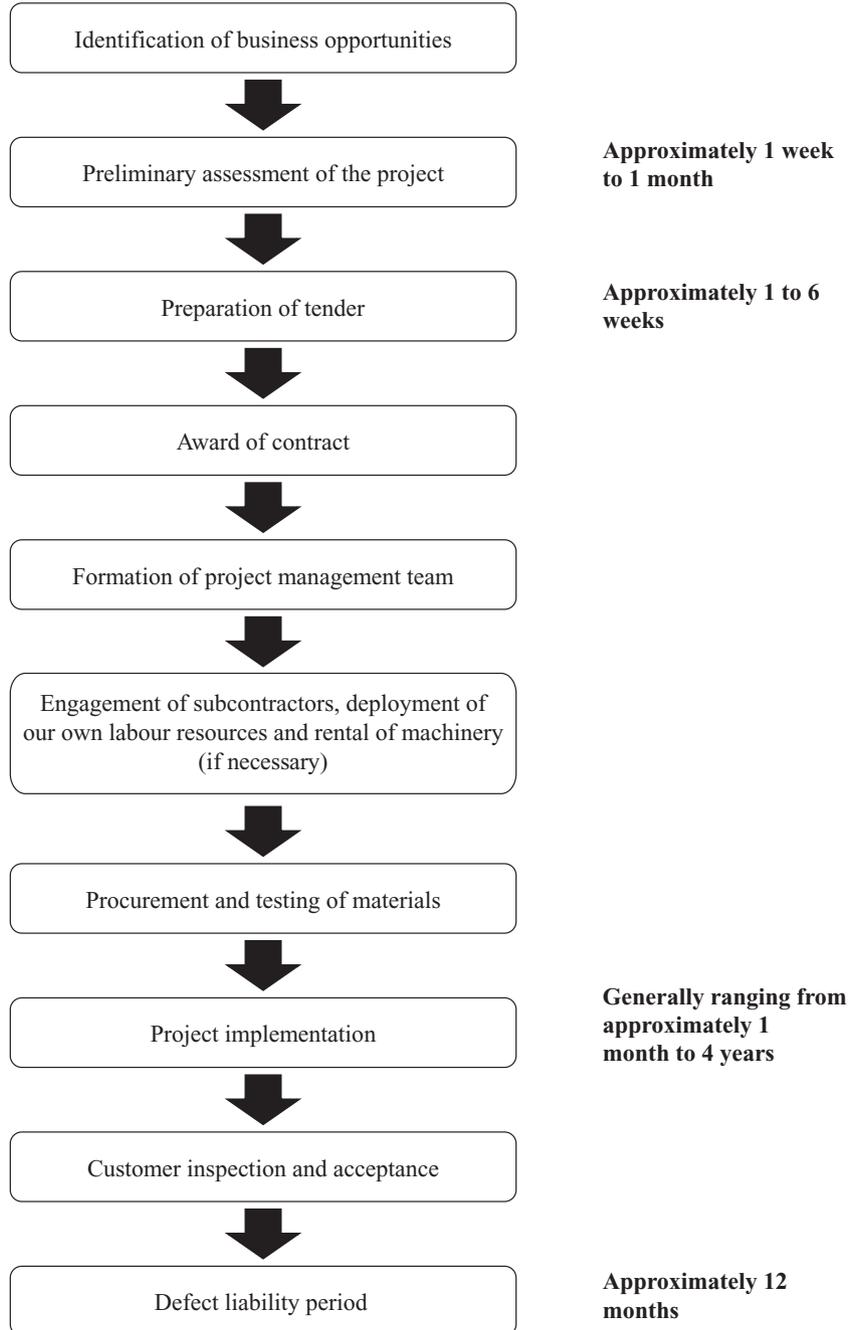
Landscape softworks and establishment works

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BUSINESS OPERATIONS

Operation flow

Set out below is a flowchart summarising the principal steps of our business operations:



Note: The timeframe is calculated on an approximate basis and may vary from project to project depending on the complexity of the project, the requirements of our customers and/or our agreement with our customers on the timeframe for the principal steps.

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Identification of business opportunities

We identify potential projects mainly through invitation for tender from customers. Our Group received from time to time invitations to submit tender from construction contractors in Hong Kong. Our management team would monitor the gazettes and different Government websites for new and upcoming slope works projects and approach the construction contractors which might have tendered for these projects to discuss on potential engagement with us.

Preliminary assessment of the project

The tender documents and project details provided by our customers generally contain project description, scope of services required, expected commencement date, contract period, payment term and timeframe for submitting the tender.

In general, we would review and evaluate the tender documents and/or project details available to us to assess the scope of services, our capability, the expected complexity, our available human resources and feasibility of the project to determine whether we should proceed with the preparation of tender.

Preparation of tender

Our executive Directors are primarily responsible for the preparation of tender proposal. Our executive Directors may conduct site visit to the place at which the project is to be undertaken so as to have a better assessment of the complexity of the works involved.

Our tender proposal generally includes our corporate profile, track record, scope of our services, proposed service fees, payment terms, defect liability period and duration of the project. The tender proposal will be approved and endorsed by our executive Directors before submission to our customers.

We estimate the costs to be incurred in the project based on our past experience and the recent price trends for the types of materials to be used in the project. We may also obtain non-binding quotations from our materials suppliers and/or subcontractors in making our cost estimation. For further information on our pricing strategy, please refer to the paragraph headed "Pricing strategy" below in this section.

Our customers may arrange interviews with us after receiving our tender proposal in order to have a further understanding of our personnel, expertise and experience. We may be required to answer queries in relation to our tender submission. Our customers may also negotiate on our scope of service.

Award of contract

Our customers generally confirm our engagement by entering into a formal service contract with us. During the Track Record Period, the contracts with our customers were mainly on re-measurement basis. Our re-measurement contracts generally include our scope of services and bill of quantities which sets out the agreed unit rates, the estimated

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quantities of each item of works to be consumed or deployed in the project, payment terms, project duration and other standard terms of services. A typical contract also contains an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount of works to be carried out by us under our contract is subject to the customer's orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual works done. For further details, please refer to the paragraph headed "Our customers – Principal terms of engagement" below in this section.

The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded and the success rate during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
Number of projects for which we have submitted tenders	12	17	10
Number of projects awarded <i>(Note)</i>	6	9	7
Success rate (%) <i>(Note)</i>	<u>50.0</u>	<u>52.9</u>	<u>70.0</u>

Note: In the above table, success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year/period or subsequently) in respect of the tenders submitted during that financial year/period.

During the Track Record Period, our Group had from time to time received invitations for tenders when our available resources were occupied by other projects on hand. On some occasions, even though the work schedule for the potential projects may be tight for us in light of our existing resources, it was our strategy to respond to our customers' invitations by submitting tenders instead of turning them down so long as we have any capacity to cater to the work schedule of such customers. In such circumstances, our executive Directors would take a more prudent approach in costs estimation by factoring a higher profit margin even though it may cause our tender price to become less competitive than those submitted by our competitors.

Our executive Directors believe such strategy allows us to (i) maintain our relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future. Due to such strategy and subject to the tender strategy of our competitors from time to time, we may experience fluctuations in our overall tender success rates from period to period.

In view of our financial performance during the Track Record Period and our projects on hand as at the Latest Practicable Date, our Directors consider that the overall success rate of our tenders during the Track Record Period has been satisfactory.

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Formation of project management team

We usually form a project management team which consists of project manager/site agent, site engineer, site foreman, safety officer/supervisor, labour officer and environmental officer. Our project management team is generally responsible for (i) formulation of detailed plans and schedule; (ii) arranging necessary materials, equipment and labour resources required for the projects; (iii) delegation of works and collaboration with our subcontractors (if necessary); (iv) supervision of work progress, budget and quality of services rendered; (v) preparation of progress report; and (vi) participation in project meetings and communication with our customers on a continual basis to ensure the works performed fulfil our customers' requirements, and are completed on schedule, within budget and in compliance with all applicable statutory requirements.

Set out below are the major responsibilities of each key member in a management team:

- Our project manager/site agent is mainly responsible for supervising our overall workforce on site, monitoring work efficiency, preparing submissions for payment applications, communicating with our customers, subcontractors and other members of the project management team on the project status, allocation of resources in a project, and reviewing the progress reports, safety reports and site records;
- Our site engineer is responsible for assisting our project manager/site agent in overseeing the engineering and technical aspects of the projects such as planning for the site operations and suitable methods and procedures;
- Our site foreman is responsible for assisting our project manager/site agent to supervise and monitor work progress on site, supervising workmanship and quality and preparing site records;
- Our safety officer/supervisor is responsible for supervising and overseeing the implementation of site safety measures, monitoring day-to-day occupational health and safety compliance and preparing safety reports;
- Our labour officer is responsible for handling the payroll of our workers, inspecting the personal identification document of each worker and preventing illegal workers from entering the site and from taking employment on site; and
- Our environmental officer is responsible for monitoring the ongoing compliance with the environmental management plan and providing environmental-related training for on-site workers.

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Engagement of subcontractors, deployment of our own labour resources and rental of machinery (if necessary)

We possess our own direct labour resources for performing slope works. Depending on the availability of our labour resources and the types of specialised works involved, we may also subcontract the works to subcontractors. For further details, please refer to the paragraph headed “Our suppliers” below in this section.

We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers. As at the Latest Practicable Date, our Group owned certain machinery, including air compressors, crane truck and excavator for performing slope works. For further details, please refer to the paragraph headed “Machinery and motor vehicles” below in this section.

Procurement and testing of materials

We are generally responsible for procuring materials required for our projects on our own account. The major types of materials that we purchased included cement and concrete, steel reinforcement, landscape materials and flexible barriers. Depending on the contract terms with our subcontractors, materials may be (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors.

We will contact the suppliers that we have obtained quotations from during the tender phase, and may further negotiate on the pricing and contract terms with them after we are awarded with the projects. Depending on the scale of our purchase, our executive Directors will approve the purchase orders for the major supplies that will be used in the project. Our project management team will ensure that the materials are in conformance to our customers’ specifications. We will submit details of the materials to our customers for prior approval before placing our purchase orders with suppliers. We have from time to time required our suppliers to provide us with certificates for the materials supplied to us. Depending on our customers’ requirements, quality inspection/testing may be conducted by third party professionals for certain kinds of materials to be used in our projects.

Project implementation

At the preliminary stage of the project, we would generally conduct certain site preparation works which typically include installing temporary hoarding, performing site planning and surveying and setting up site offices. In relation to site planning and surveying, the relevant works are either carried out by our executive Directors who are Registered Professional Engineers under the Engineers Registration Board or engineers arranged by our customers pursuant to our contra-charge arrangements with such customers. During the implementation of the projects, we may from time to time second certain project management personnel to our customers of the projects upon their requests.

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Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will report on the project status and any issue identified throughout the project. After the review and endorsement by our project managers/site agents, the monthly progress reports will then be submitted to our customers for record.

We perform in-house quality inspection and project supervision throughout project implementation in accordance with our in-house quality management systems. For further information regarding our quality management systems, please refer to the paragraph headed "Quality control" below in this section.

We generally receive progress payments from our customers based on our works done throughout project implementation. For further details on the payment terms, please refer to the paragraph headed "Our customers – Principal terms of engagement" in this section. As our general practice, we regard project as duly completed once we have received confirmations issued by our customers in relation to the relevant site works.

Customer inspection and acceptance

Upon completion of our works, our customers or their authorised representatives will conduct inspection and examination on our works done to ensure they comply with their quality standards, requirements and specifications. Upon passing the inspection, our customers or their authorised representatives will generally issue confirmations to us which indicate substantial completion of the site works.

Variation orders (if any)

During project implementation, our customers may request items of works which are not included in the bill of quantities set out in the contract. The value of those work items not specified in the bill of quantities will be negotiated with our customers on a case-by-case basis.

For FY2017, FY2018 and the five months ended 31 May 2019, our revenue attributable to the variation orders amounted to approximately HK\$5.2 million, nil and HK\$15.3 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material cancellation of works or material disputes with our customers on the amount of the variation orders.

Defect liability period

Our service contracts generally include a defect liability period of 12 months, following the completion of the relevant site works. During the defect liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our neglect or failure to comply with our contractual obligation.

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Retention money (if necessary)

Depending on the contract terms and negotiation with our customers, our customers may hold up a certain percentage of each payment made to us as retention money. Retention money is normally up to 10% of the value of works done and subject to a maximum of 5% of the total contract sum. Typically, the retention money is released upon the expiry of the defect liability period of 12 months following the completion date of the project. Please refer to the section headed “Financial information – Discussion on selected items from the consolidated statements of financial position – Contract assets” in this prospectus for a further discussion and analysis regarding our retention receivables.

PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

Revenue by project sector

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. Public sector projects refer to projects of which the project owners are Government departments or statutory bodies, while private sector projects refer to projects that are not public sector projects.

In respect of public sector projects, our customers were generally construction contractors which are registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau. During the Track Record Period, the project owners of our public sector projects generally included the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department. In respect of private sector projects, our customers were generally construction contractors engaged by property owners and educational institutions.

The following table sets forth a breakdown of our revenue during the Track Record Period for private and public sector projects:

	FY2017			FY2018			Five months ended 31 May 2018			Five months ended 31 May 2019		
	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue
Public sector	9	89,827	95.2	11	106,045	95.3	10	51,816	99.8	11	58,876	78.2
Private sector	3	4,496	4.8	5	5,200	4.7	1	90	0.2	4	16,411	21.8
Total	12	94,323	100.0	16^(Note 1)	111,245	100.0	11	51,906	100.0	15^(Note 2)	75,287	100.0

Notes:

- Out of the 16 projects which contributed revenue to FY2018, 6 projects also contributed revenue to FY2017.
- Out of the 15 projects which contributed revenue to the five months ended 31 May 2019, 5 and 10 projects also contributed revenue to FY2017 and FY2018, respectively.

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In June 2018, our Group was awarded with a private sector project as main contractor by a church in Ap Lei Chau, Hong Kong, which contributed HK\$0.2 million to our revenue. Save as the aforesaid, we undertook all of our projects in the role of subcontractor during the Track Record Period.

Number of projects by range of revenue recognised

For FY2017, FY2018 and the five months ended 31 May 2019, there were 12, 16 and 15 projects which contributed a total of approximately HK\$94.3 million, HK\$111.2 million and HK\$75.3 million to our revenue, respectively. Set out below is a breakdown of our projects based on their respective range of revenue recognised during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised			
HK\$10.0 million or above	3	4	3
HK\$5.0 million to below HK\$10.0 million	0	2	2
HK\$1.0 million to below HK\$5.0 million	6	6	4
Below HK\$1.0 million	3	4	6
Total	12	16	15

Top projects undertaken during the Track Record Period

The following tables set out the details of our top ten projects in terms of accumulated revenue contribution to our Group during the Track Record Period:

Project No.	Rank	Customer <i>(Note 1)</i>	Estimated contract sum <i>(Note 2)</i> HK\$'000	Private/ Public sector	Location of the project	Date of commencement and completion of our works <i>(Note 3)</i>	Scope of works <i>(Note 4)</i>	Revenue (percentage of total revenue recognised for the year)		Five months ended 31 May 2019 HK\$'000	Five months ended 31 May 2019 %	Estimated revenue to be recognised after the Track Record Period <i>(Note 5)</i> HK\$'000		
								FY2017 HK\$'000	FY2018 %					
#01	1	Tai Kam Construction Engineering Company Limited	78,000	Public	Various locations in Kowloon, New Territories and Outlying Islands	Commencement: June 2015 Completion: February 2020	(I), (II), (V), (VI), (VII), (VIII)	39,934	42.3	15,704	14.1	2,311	3.1	Seven months ending 31 December 2019: 497
#02	2	Fong On Construction Limited	46,000	Public	Various locations in Hong Kong Island, Kowloon and New Territories	Commencement: April 2017 Completion: December 2019	(I), (II), (V), (VI), (VII), (VIII)	13,135	13.9	30,273	27.2	14,378	19.1	FY2020: 497 Seven months ending 31 December 2019: 8,381
#03	3	Customer D	98,000	Public	Northern regions	Commencement: November 2017 Completion: November 2020	(I), (II), (V), (VI), (VII), (VIII)	1,647	1.7	28,556	25.7	21,499	28.6	Seven months ending 31 December 2019: 22,615
#04	4	Tai Kam Construction Engineering Company Limited	59,540	Public	Nam Chung and Sai Kung	Commencement: June 2015 Completion: December 2019	(I), (IV), (V), (VI), (VII), (VIII)	29,592	31.4	12,277	11.0	424	0.6	FY2020: 23,683 Seven months ending 31 December 2019: 1,647
#05	5	Fong On Construction Limited	22,934	Private	The Peak	Commencement: November 2018 Completion: December 2019	(I), (II), (V), (VIII)	-	-	447	0.4	11,435	15.2	Seven months ending 31 December 2019: 12,117
#06	6	Geotech Engineering Limited	30,000	Public	Various locations in Kowloon and New Territories	Commencement: January 2019 Completion: December 2019	(I), (V), (VI), (VII)	-	-	-	-	9,625	12.8	Seven months ending 31 December 2019: 20,375
#07	7	Customer C	7,112	Public	Lian Tang	Commencement: July 2017 Completion: February 2020	(IV), (VII)	1,389	1.5	5,372	4.8	1,120	1.5	Seven months ending 31 December 2019: 1,045
#08	8	Fong On Construction Limited	6,863	Private	Pokfulam	Commencement: October 2018 Completion: December 2019	(I), (VIII)	-	-	2,663	2.4	3,806	5.1	FY2020: 74 Seven months ending 31 December 2019: 394
#09	9	Geotech Engineering Limited	6,000	Public	Various locations in Hong Kong Island, New Territories West and Lantau Island	Commencement: January 2018 Completion: October 2018	(I), (V), (VI), (VII)	-	-	5,379	4.8	-	-	-
#10	10	Geotech Engineering Limited	20,000	Public	Various locations in Hong Kong Island, New Territories West and Lantau Island	Commencement: January 2019 Completion: February 2020	(I), (V), (VI), (VII)	-	-	-	-	5,031	6.7	Seven months ending 31 December 2019: 6,891 FY2020: 8,078

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Notes:

1. Please refer to the paragraph headed “Our customers – Top customers” in this section.
2. The estimated contract sum shown in the above table represents the original estimated contract sum stated in the contract and does not take into account variation orders.
3. Where applicable, future completion dates represent our management’s best estimates according to the expected completion dates specified in the relevant contracts (if any), the extension period granted by our customers (if any), and the actual work schedule up to the Latest Practicable Date.
4. Our major types of slope works can be categorised as follows:
 - (I) drilling and installation of soil nails;
 - (II) construction of retaining walls;
 - (III) installation of debris flow protection rigid barriers;
 - (IV) construction of flexible barrier system;
 - (V) installation of raking drains;
 - (VI) installation of wire meshes and mats for erosion control;
 - (VII) construction of concrete maintenance stairway/access; and
 - (VIII) landscape softworks and establishment works
5. The estimated revenue to be recognised after the Track Record Period is calculated based on the estimated contract sum, and if applicable, the actual work orders received by our Group as at the Latest Practicable Date.

Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017	FY2018	Five months ended 31 May 2019	From 1 June 2019 to the Latest Practicable Date
Opening number of projects ^(Note 1)	5	6	12	14
Number of new projects awarded to us ^(Note 2)	7	12	4	5
Number of projects completed ^(Note 3)	<u>(6)</u>	<u>(6)</u>	<u>(2)</u>	<u>(1)</u>
Ending number of projects ^(Note 4)	<u>6</u>	<u>12</u>	<u>14</u>	<u>18</u>

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Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.
3. Number of projects completed means the number of projects which are practically regarded as completed.
4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

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The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017 HK\$'000	FY2018 HK\$'000	Five months ended 31 May 2019 HK\$'000	From 1 June 2019 to the Latest Practicable Date HK\$'000 <i>(Unaudited)</i>
Opening value of backlog	100,716	168,681	155,501	153,987
Total value of new projects and variation orders awarded <i>(Note 1)</i>	162,288	98,065	73,773	110,661
Revenue recognised	<u>(94,323)</u>	<u>(111,245)</u>	<u>(75,287)</u>	<u>(77,094)</u>
Ending value of backlog <i>(Note 2)</i>	<u><u>168,681</u></u>	<u><u>155,501</u></u>	<u><u>153,987</u></u>	<u><u>187,554</u></u>

Notes:

- Total value of new projects and variation orders awarded means (i) the original estimated contract sum of new projects awarded, or where applicable, the adjusted contract sum taking into account the actual amount of orders under the contracts; and (ii) the value of variation orders issued by our customers in the relevant year/period indicated.
- Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

PROJECTS ON HAND

As at the Latest Practicable Date, our Group had 18 projects on hand (representing projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) with an aggregate of approximately HK\$264.6 million yet to be recognised as revenue after the Track Record Period among which, approximately HK\$107.8 million, HK\$147.3 million and HK\$9.5 million, are expected to be recognised as revenue in the seven months ending 31 December 2019, FY2020 and FY2021, respectively. The following table sets out the details of our on-going projects as at the Latest Practicable Date:

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Project No.	Location of the project	Customer	Private/ public sector	Estimated contract sum (Note 1) HK\$'000	Date of commencement and completion of our works (Note 2)	Revenue recognised during			Estimated revenue to be recognised during		
						FY2017 HK\$'000	FY2018 HK\$'000	Five months ended 31 May 2019 HK\$'000	Seven months ending 31 December 2019 HK\$'000	FY2020 HK\$'000	FY2021 HK\$'000
O1	Northern regions	Customer D	Public	98,000	Commencement: November 2017 Completion: November 2020	1,647	28,556	21,499	22,615	23,683	-
O2	The Peak	Fong On Construction Limited	Private	22,934	Commencement: November 2018 Completion: December 2019	-	447	11,435	12,117	-	-
O3	Various locations in Hong Kong Island, New Territories West and Lantau Island	Geotech Engineering Limited	Public	20,000	Commencement: January 2019 Completion: February 2020	-	-	5,031	6,891	8,078	-
O4	Pokfulam	Fong On Construction Limited	Private	6,863	Commencement: October 2018 Completion: December 2019	-	2,663	3,806	394	-	-
O5	Choi Hung	Customer E	Private	4,818	Commencement: April 2018 Completion: December 2019	-	1,503	463	2,858	-	-
O6	Various locations in Kowloon, New Territories and Outlying Islands	Tai Kam Construction Engineering Company Limited	Public	78,000	Commencement: June 2015 Completion: February 2020	39,934	15,704	2,311	497	497	-
O7	Various locations in Hong Kong Island, Kowloon and New Territories	Fong On Construction Limited	Public	46,000	Commencement: April 2017 Completion: December 2019	13,135	30,273	14,378	8,381	-	-
O8	Nam Chung and Sai Kung	Tai Kam Construction Engineering Company Limited	Public	59,540	Commencement: June 2015 Completion: December 2019	29,592	12,277	424	1,647	-	-
O9	Lian Tang	Customer C	Public	7,112	Commencement: July 2017 Completion: February 2020	1,389	5,372	1,120	1,045	74	-
O10	Various locations in Kowloon and New Territories	Geotech Engineering Limited	Public	30,000	Commencement: January 2019 Completion: December 2019	-	-	9,625	20,375	-	-

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Project No.	Location of the project	Customer	Private/public sector	Estimated contract sum (Note 1) HK\$'000	Date of commencement and completion of our works (Note 2)	Revenue recognised during			Estimated revenue to be recognised during		
						FY2017 HK\$'000	FY2018 HK\$'000	Five months ended 31 May 2019 HK\$'000	Seven months ending 31 December 2019 HK\$'000	FY2020 HK\$'000	FY2021 HK\$'000
O11	Tuen Mun, Yuen Long, North district, Tai Po and Shatin	Customer G	Public	20,000	Commencement: March 2019 Completion: February 2020	-	-	3,010	13,454	3,536	-
O12	Shing Mun Valley	Fong On Construction Limited	Public	15,481	Commencement: March 2019 Completion: March 2020	-	-	752	10,361	4,368	-
O13	Various locations in Hong Kong	Geotech Engineering Limited	Public	20,000	Commencement: February 2019 Completion: February 2020	-	-	669	4,966	14,365	-
O14	Tsing Yi	Customer C	Private	16,292	Commencement: March 2020 Completion: March 2021	-	-	-	-	13,577	2,715
O15	Various locations in Hong Kong	Geotech Engineering Limited	Public	41,000	Commencement: February 2020 Completion: February 2021	-	-	-	-	34,167	6,833
O16	Various locations in Kowloon and New Territories	Geotech Engineering Limited	Public	28,000	Commencement: December 2019 Completion: December 2020	-	-	-	-	28,000	-
O17	Various locations in Hong Kong Island, Kowloon and New Territories	Customer D	Public	6,774	Commencement: October 2019 Completion: June 2020	-	-	-	1,129	5,645	-
O18	Kadoorie Hill	Fong On Construction Limited	Private	12,380	Commencement: December 2019 Completion: November 2020	-	-	-	1,032	11,348	-
						85,697	96,795	74,523	107,762	147,338	9,548

Notes:

- The estimated contract sum shown in the above table represents the original estimated contract sum stated in the contract and does not take into account variation orders.
- The expected completion date for a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.
- The estimated revenue to be recognised after the Track Record Period is calculated based on the estimated contract sum, and if applicable, the actual work orders received by our Group as at the Latest Practicable Date.

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OUR CUSTOMERS

Characteristics of our customers

During the Track Record Period, our customers mainly included construction contractors in Hong Kong. The number of customers with revenue contribution to our Group was five, seven and seven for FY2017, FY2018 and the five months ended 31 May 2019, respectively. During the Track Record Period, all of our customers were located in Hong Kong and our revenue was denominated in Hong Kong dollars.

Principal terms of engagement

We undertake slope works on a project-by-project basis. Our executive Directors consider such arrangement is in line with the slope works industry practice in Hong Kong. Our customers generally confirm our engagement by entering into a formal service contract with us. The principal terms of our engagement with customers are summarised as follows:

Scope of works

The contracts normally set out the scope of services to be carried out by our Group and other project specifications or requirements. Our customers generally require us to complete our works within a specified period and in accordance with their specified work schedule.

Duration

The contract usually specifies the commencement date and duration of the project implementation, typically ranging from one month to four years, subject to extension granted by the customers where necessary.

Contract sum

The contracts with our customers are mainly on re-measurement basis. Under the re-measurement contracts, the final contract sum will be determined based on the agreed unit rates and the actual quantities of work done. The contract contains an estimated contract sum, which is determined by the agreed unit rates of each item and the estimated total quantities of items of works set out in the bill of quantities.

In some projects, depending on our negotiation with customer, we had occasionally agreed on a lump sum fixed price with the customer for carrying out the scope of works.

For public sector projects, there is usually a clause in the service contracts which allows regular price adjustment to our service fees with reference to the overall inflation level according to official statistics of the Government.

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Payment terms

Our Group generally submits a progress payment application to our customer on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, our customer or its authorised person will examine and certify our works done by endorsing on our payment application or issuing a payment certificate to us. The credit term granted by us to our customers is generally 30 to 60 days from the issue of invoices. Some of our customers adopt a “pay when paid” policy with us and they have the rights to pay us after collection of payments from their customers.

Insurance

Our customers would normally take out contractors’ all risk insurance, third party liability insurance and employees’ compensation insurance covering their own liabilities as well as our liabilities. Alternatively, we may be required under our service contract to take out the aforesaid insurance policies when we were engaged as main contractor. For further details, please refer to the paragraph headed “Insurance” below in this section.

Procurement of materials

We are generally responsible for procuring the materials required for the project on our own account. We typically purchase materials from our internal list of approved materials suppliers. In certain circumstances, our customers may procure certain specified materials on behalf of us at our costs. In this context, we would regard such customer as our supplier of the relevant materials, further details of which are discussed in the paragraph headed “Top customers who were also our suppliers” below in this section.

Defect liability period

For details regarding our defect liability period, please refer to the paragraph headed “Operation flow – Defect liability period” above in this section.

Retention money

For details regarding our retention money, please refer to the paragraph headed “Operation flow – Retention money (if necessary)” above in this section.

Variation orders

For details regarding our variation orders, please refer to the paragraph headed “Operation flow – Variation orders (if any)” above in this section.

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Performance guarantee

For projects awarded by Geotech Engineering Limited and Customer G during the Track Record Period and up to the Latest Practicable Date, we were required under the contracts to provide performance guarantee issued by banks or insurance companies in the amount of approximately 10% of the estimated contract sum in favour of our customers. For further details, please refer to the paragraph headed “Business strategies – 4. Increasing our reserve for financing the issue of performance guarantees” above in this section. Such arrangement serves to secure our due and timely performance of work and compliance with the contract. If we fail to perform according to the requirements in the contract, our customer would be entitled to the guaranteed compensation for any monetary loss up to the amount of the performance guarantee. When arranging with bank or insurance company for the issuance of performance guarantee in favour of our customer, a pledged deposit equivalent to a certain percentage (i.e. 30%-40%) of the performance guarantee is normally required to be placed by us with the bank or insurance company. Our performance guarantee is generally discharged upon project completion.

During the Track Record Period and up to the Latest Practicable Date, the performance guarantee arranged by us in favour of our customers had not been called by reason of non-performance of the contract undertaken by us.

Liquidated damages

Liquidated damages clause may be included in the contracts to protect our customers against late completion of work. We may be liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract. Liquidated damages are generally calculated on the basis of a fixed sum per day and/or according to certain damages calculating mechanism as stipulated under the contract. During the Track Record Period and up to the Latest Practicable Date, no liquidated damages had been claimed by our customers against us.

Termination

Our customers may terminate our contracts if, among other things, we fail to execute the agreed scope of works, or if we cause undue delay to the overall progress of the project. During the Track Record Period and up to the Latest Practicable Date, none of our contracts were terminated pursuant to the termination clause.

Top customers

For each of FY2017, FY2018 and the five months ended 31 May 2019, the percentage of our total revenue attributable to our top customer amounted to approximately 74.3%, 31.1% and 41.2% respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 98.5% and 97.9%, respectively.

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FY2017

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Tai Kam Construction Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works in Hong Kong	Since 2013	Within 7 days from receipt of payments by our customer from its customer; by cheque	70,077	74.3
2	Fong On Construction Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by cheque	13,135	13.9
3	Customer C	A construction contractor company specialising in civil engineering works in Hong Kong and overseas	Since 2016	30 days; by cheque	7,157	7.6
4	Customer D	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	3,390	3.6
5	Customer E	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works and other geotechnical engineering works in Hong Kong	Since 2017	30 days; by cheque	564	0.6
Top five customers combined					<u>94,323</u>	<u>100.0</u>
Total revenue					<u><u>94,323</u></u>	<u><u>100.0</u></u>

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FY2018

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Tai Kam Construction Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works in Hong Kong	Since 2013	Within 7 days from receipt of payments by our customer from its customer; by cheque	34,578	31.1
2	Fong On Construction Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works general building works and associated services and other construction works in Hong Kong	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by cheque	33,770	30.4
3	Customer D	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	28,556	25.7
4	Customer C	A construction contractor company specialising in civil engineering works in Hong Kong and overseas	Since 2016	30 days; by cheque	7,257	6.5
5	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Since 2018	60 days; by cheque	5,380	4.8
Top five customers combined					109,541	98.5
All other customers					<u>1,704</u>	<u>1.5</u>
Total revenue					<u><u>111,245</u></u>	<u><u>100.0</u></u>

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Five months ended 31 May 2019

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Fong On Construction Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by cheque	31,078	41.2
2	Customer D	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	21,499	28.6
3	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Since 2018	60 days; by cheque	15,325	20.4
4	Customer G	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works, foundation works and other general building works in Hong Kong	Since 2019	42 days after certification by architects appointed in respect of the projects; by cheque	3,010	4.0
5	Tai Kam Construction Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works in Hong Kong	Since 2013	Within 7 days from receipt of payments by our customer from its customer; by cheque	2,791	3.7
			Top five customers combined		73,703	97.9
			All other customers		<u>1,584</u>	<u>2.1</u>
			Total revenue		<u><u>75,287</u></u>	<u><u>100.0</u></u>

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None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of the issued shares of our Company as at the Latest Practicable Date had any interest in any of our top five customers during the Track Record Period.

Further information on our top customers

Tai Kam Construction Engineering Company Limited is a subsidiary of a company listed on the GEM (the “**Tai Kam Holdco**”). Tai Kam Holdco was listed on the GEM on 28 October 2016. According to publicly available information, the current executive directors of Tai Kam Holdco are Ms. Tsui Tsz Fa Mabel and Ms. Liu Tanying, and the current independent non-executive directors of Tai Kam Holdco are Mr. Yim Kin Ping, Ms. Li Yixuan and Mr. Lau Wang Lap. On 10 August 2018, the then controlling shareholders of Tai Kam Holdco ceased to be controlling shareholders through share disposal. According to the latest annual report of Tai Kam Holdco, its principal business activities include acting as a main contractor of slope works in Hong Kong. Based on the latest annual report of Tai Kam Holdco, for the years ended 30 April 2018 and 2019, its revenue amounted to approximately HK\$180.1 million and HK\$169.1 million and its net asset value amounted to approximately HK\$100.4 million and HK\$113.8 million respectively. Our Group became acquainted with Tai Kam Construction Engineering Company Limited through the business network of Mr. Ho and his spouse, Ms. Lee Kim Kum (“**Ms. Lee**”). Mr Ho and Ms. Lee previously worked for FingerStones Engineering Limited as directors. FingerStones Engineering Limited was introduced by one of its subcontractors to Tai Kam Construction Engineering Company Limited in early 2011. Mr. Ho and Ms. Lee had the opportunity to work with Tai Kam Construction Engineering Company Limited when FingerStones Engineering Limited obtained a slope works project from Tai Kam Construction Engineering Company Limited in April 2011.

Fong On Construction Limited is a subsidiary of a company listed on the Main Board of the Stock Exchange (the “**Fong On Holdco**”). According to the latest annual report of Fong On Holdco, its principal business activities include the provision of (i) foundation and site formation works, (ii) general building works, and (iii) other construction works including slope works in Hong Kong. Based on the latest annual report of Fong On Holdco, for the years ended 30 September 2017 and 2018, its revenue amounted to approximately HK\$359.3 million and HK\$379.6 million and its net asset value amounted to approximately HK\$97.0 million and HK\$91.9 million respectively. Our Group became acquainted with Fong On Construction Limited through the business network of Mr. Ho and his spouse, Ms. Lee. Mr. Ho and Ms. Lee previously worked for FingerStones Engineering Limited as directors. As Mr. Ho and Ms. Lee looked out for potential business opportunities based on public information published by the Buildings Department, they had identified Fong On Construction Limited as a potential customer. Mr. Ho and Ms. Lee had the opportunity to work with Fong On Construction Limited when FingerStones Engineering Limited was engaged by Fong On Construction Limited to participate in a redevelopment project in Wong Tai Sin in May 2008.

Customer C is a private company incorporated in 1984 in Hong Kong, the principal activities of which include the supply, design and installation of geosynthetics in Hong Kong, Macau, Southeast Asia and Southern China. Based on the latest annual return of Customer C available at the Companies Registry, its share capital is approximately

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HK\$50,000. Customer C is not a listed company and therefore its operational and financial information is not publicly available. Our Group became acquainted with Customer C through the business network of Mr. Ho and his spouse, Ms. Lee. Mr. Ho and Ms. Lee previously worked for FingerStones Engineering Limited as directors. As Mr. Ho and Ms. Lee looked out for potential new customer for FingerStones Engineering Limited, they had identified Customer C through its corporate website. Mr. Ho and Ms. Lee had the opportunity to work with Customer C when FingerStones Engineering Limited was engaged by Customer C to carry out installation of flexible fence debris flow barrier in Discovery Bay in November 2009.

Customer D is a private company incorporated in 1989 in Hong Kong, the principal activities of which include the provision of (i) slope works, (ii) site formation works and (iii) demolition works in Hong Kong. Based on the latest annual return of Customer D available at the Companies Registry, its share capital is approximately HK\$21.5 million. Customer D is not a listed company and therefore its operational and financial information is not publicly available. Our Group became acquainted with Customer D through the business network of Mr. Ho and his spouse, Ms. Lee. Mr. Ho and Ms. Lee previously worked for FingerStones Engineering Limited as directors. As Mr. Ho and Ms. Lee looked out for potential business opportunities based on public information published by the Development Bureau and the CEDD, they had identified Customer D as a potential customer. Mr. Ho and Ms. Lee had the opportunity to work with Customer D when FingerStones Engineering Limited was engaged by Customer D to carry out slope work in relation to a Mass Transit Railway development project in mid-2011.

Customer E is a subsidiary of a company listed on the GEM (the “**Customer E Holdco**”). According to the latest annual report of Customer E Holdco, its principal business activities include (i) foundation and site formation works, and (ii) other geotechnical engineering works such as slope works. Based on the latest annual report of Customer E Holdco, for the years ended 31 December 2017 and 2018, its revenue amounted to approximately HK\$138.3 million and HK\$127.6 million and its net asset value amounted to approximately HK\$71.3 million and HK\$68.9 million respectively. Our Group became acquainted with Customer E through our executive Directors’ efforts in identifying new potential customers. Our executive Directors learnt about Customer E through its corporate website and directly approached its representative by around 2017.

Geotech Engineering Limited is a subsidiary of a company listed on the Main Board of the Stock Exchange (the “**Geotech Holdco**”). Geotech Holdco was listed on the Main Board of the Stock Exchange on 12 October 2017. According to publicly available information, the current executive directors of Geotech Holdco are Mr. Chen Zhi, Mr. Qiu Dong and Mr. Yau Kin Wing Sino, and the current independent non-executive directors of Geotech Holdco are Mr. Chan Tsang Mo, Mr. Fung Chi Kin, Mr. Shen Zejing and Mr. So Wai Man. On 4 December 2018, the then controlling shareholders of Geotech Holdco ceased to be controlling shareholders through share disposal. According to the latest annual report of Geotech Holdco, its principal business activities include the provision of construction and engineering services including slope works in Hong Kong. Based on the latest annual report of Geotech Holdco, for the years ended 31 December 2017 and 2018, its revenue amounted to approximately HK\$275.8 million and HK\$257.4 million and its net asset value amounted to approximately HK\$186.5 million and HK\$191.7 million respectively. Our Group became

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acquainted with Geotech Engineering Limited as we carried out one of our projects at Tseung Kwan O during FY2018. As our site office of such project was located nearby a job site of Geotech Engineering Limited, we had the opportunity to introduce our corporate profile and track record to the representative of Geotech Engineering Limited at that time.

Customer G is a subsidiary of a company listed on the GEM (the “**Customer G Holdco**”). Customer G Holdco was listed on the GEM on 2 November 2015. According to publicly available information, the current executive directors of Customer G Holdco are Mr. Zhou Ying and Ms. Meng Ying, and the current independent non-executive directors of Customer G Holdco are Mr. Wong Man Hin, Raymond, Mr. Tsui Chung Ho and Ms. Lai Pik Chi Peggy. On 5 May 2017, the then controlling shareholders of Customer G Holdco ceased to be controlling shareholders through share disposal. According to the latest annual report of Customer G Holdco, its principal business activities include undertaking slope works, foundation works and other general building works in Hong Kong. Based on the latest annual report of Customer G Holdco, for the years ended 30 April 2018 and 2019, its revenue amounted to approximately HK\$137.8 million and HK\$158.4 million and its net asset value amounted to approximately HK\$72.9 million and HK\$63.1 million respectively. Our Group became acquainted with Customer G through introduction by Customer C in 2018.

The divestment history of the respective holding companies of Tai Kam Construction Engineering Company Limited, Geotech Engineering Limited and Customer G

(I) No material changes on our business relationships with our customers amid their divestment history

Our executive Directors consider and the Sponsor concurs that the changes in controlling shareholders of the respective holding companies of Tai Kam Construction Engineering Company Limited, Geotech Engineering Limited and Customer G did not and will not result in any material changes in their business relationship with our Group, taking into consideration the followings:

(a) Business relationship with Tai Kam Construction Engineering Company Limited

Our business relationship with Tai Kam Construction Engineering Company Limited commenced when they awarded the first project, Project A7 (details of which is set out in the paragraph headed “Our customers – Our business relationships with Tai Kam Construction Engineering Company Limited” in this section), to our Group in early 2013. According to public available information, the then controlling shareholders of Tai Kam Holdco started reducing their shareholding through share disposal since December 2017. After certain share disposals, the shareholding of the then controlling shareholders of Tai Kam Holdco decreased from 75.0% as at 21 December 2017 to 30.7% as at 7 August 2018 (the “**Initial Disposal Period**”). During the Initial Disposal Period, Tai Kam Construction Engineering Limited awarded new projects to us, namely Project A3, A4, A5 and A6 (details of which is set out in the paragraph headed “Our customers – Our business relationships with Tai Kam Construction Engineering Company Limited” in this section). The then controlling shareholders of Tai Kam Holdco made further share disposal on 10 August 2018, resulting in a reduction of their

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shareholding from 30.7% as at 7 August 2018 to 19.5% as at 10 August 2018 and hence they ceased to be controlling shareholders of Tai Kam Holdco. Subsequent to the change in controlling shareholders of Tai Kam Holdco in August 2018, we continued receiving tender invitations from Tai Kam Construction Engineering Company Limited. Out of the three tender invitations we received from Tai Kam Construction Engineering Company Limited since August 2018 up to the Latest Practicable Date, our Group had responded to two tender invitations by submitting our tender proposals, among which one of our tenders was rejected and the results of one of the other tender was pending as at the Latest Practicable Date. Given that Tai Kam Construction Engineering Company Limited (i) had awarded new projects to us during the Initial Disposal Period; and (ii) continued inviting us for tender submission after the change in controlling shareholders of Tai Kam Holdco in August 2018, our executive Directors consider and the Sponsor concurs that the change in controlling shareholders of Tai Kam Holdco in August 2018 did not and will not have any material adverse impact on our business relationship with Tai Kam Construction Engineering Company Limited.

(b) Business relationship with Geotech Engineering Limited

Our business relationship with Geotech Engineering Limited commenced when they awarded the first project, Project F1 (details of which is set out in the paragraph headed “Business – Our customers – Business arrangement with Geotech Engineering Limited” in this prospectus), to our Group in early 2018. Following the change of controlling shareholders of Geotech Holdco in December 2018, Geotech Engineering Limited had engaged us in additional slope works projects, namely Project F2, F3, F4, F5 and F6. All of these projects were ongoing as at the Latest Practicable Date. Given that Geotech Engineering Limited had awarded projects to us both before and after the change in controlling shareholders of Geotech Holdco, our executive Directors consider and the Sponsor concurs that the change in controlling shareholders of Geotech Holdco in December 2018 did not and will not have any material adverse impact on our business relationship with Geotech Engineering Limited.

(c) Business relationship with Customer G

Customer G, being a new customer of our Group in FY2019, commenced business relationship with us when they awarded the first project, Project O11 (details of which is set out in the paragraph headed “Business – Projects undertaken during the Track Record Period” in this prospectus), to us in early 2019. Our executive Directors confirmed and the Sponsor concurred that the terms of our transactions with Customer G during the Track Record Period and up to the Latest Practicable Date were conducted on normal commercial terms and comparable to the transactions with our other customers, given that (i) we obtained our project from Customer G through tender process upon its invitation and the project was awarded to us on a project-by-project basis, which is consistent with the industry practice according to the F&S Report; and (ii) our terms of engagement with Customer G were substantially similar to that with our other customers as set out in the paragraph headed “Our customers – Principal terms of engagement” above in this section. Given our business relationship with Customer G only commenced after the change in controlling shareholders of Customer G Holdco in May 2017, our executive Directors consider and the Sponsor concurs that the change in controlling shareholders of Customer G Holdco in May 2017 did not and will not have any material adverse impact on our business relationship with Customer G.

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Based on the aforesaid, the divestment history of the respective holdings companies of Tai Kam Construction Engineering Company Limited, Geotech Engineering Limited and Customer G have not resulted in any material changes in their business relationships with our Group. Nevertheless, there is no assurance on whether any of these major customers will cease or scale down their operations in the construction-related industries according to their internal commercial decisions in the future. While we have no intent to limit ourselves to the role of main contractor after the Listing, our executive Directors believe that our plan to become an Approved Specialist Contractor will give us greater flexibility in sourcing tender opportunities from the Government and hence minimise the potential disruption to us resulting from any material change in the management and/or ownership of our major customers.

(II) Our Controlling Shareholders' commitment to our Group and the slope works industry in Hong Kong

Prior to joining our Group in 2016, each of our Controlling Shareholders, namely Mr. Sieh and Mr. Ho, had worked for Tai Kam Construction Engineering Company Limited as a site agent. Throughout their employments with Tai Kam Construction Engineering Company Limited, Mr. Sieh and Mr. Ho were only assigned with the duties of project management and execution, and none of them have been a director or senior management member of Tai Kam Construction Engineering Company Limited. In particular, Mr. Sieh and Mr. Ho confirmed that they had no participation or any other involvement whatsoever in the formulation of business strategies or seeking of external financing of Tai Kam Holdco and/or Tai Kam Construction Engineering Company Limited.

Since Mr. Sieh and Mr. Ho took up the management and operations of our Group in 2016, they noticed certain divestment activities in relation to the respective holding companies of Tai Kam Construction Engineering Company Limited, Geotech Engineering Limited and Customer G (the “**Divested Customers**”). Both Mr. Sieh and Mr. Ho considered that such divestment decisions were made by the relevant controlling shareholders based on their own consideration. Notwithstanding the divestment activities of our Divested Customers, both Mr. Sieh and Mr. Ho are fully committed to the long-term development and expansion of our Group and are optimistic about the development of slope works industry in Hong Kong.

The long-term commitments of our Controlling Shareholders to our Group and the slope works industry as a whole can be demonstrated by the following factors:

- It had all along been the plan of Mr. Ho to build up his own construction business. Mr. Ho made his first business venture in the construction industry in 2007 through FingerStones Engineering Limited and he had been a co-founder of A-City Workshop in August 2012.
- Since Mr. Sieh and Mr. Ho joined our Group, they had contributed to the expansion and diversification of our customer base, as evidenced by (i) the increase in the number of our customer from five in FY2017 to seven in FY2018; and (ii) the projected increase in our revenue from approximately HK\$111.2 million for FY2018 to approximately HK\$184.0 million for FY2019.
- In light of the divestment history of the Divested Customers, we had made consistent efforts in developing our customer base. In particular, among the eight projects that we had tendered for as at the Latest Practicable Date, Project T2 is a

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private sector project of which the potential customer is an established global retail banking corporation, and Project T4 is a private sector project of which the potential customer is a transport operator in Hong Kong. Currently, we are undergoing the customer's internal acceptance procedure for Project T2 and finalising the contract details for Project T4 with the customer. Our Controlling Shareholders believe that the tender invitations from these two potential customers and the current tender status of their projects reflect their confidence in our capability of undertaking slope work projects as main contractor as well as our growing industry reputation in the private sector.

- As we maintained our business growth in terms of revenue and profit during the Track Record Period, the revenue contribution from other customers (excluding the Divested Customers) increased significantly from 25.7% for FY2017 to 64.1% for FY2018 and further to 70.9% for the five months ended 31 May 2019.
- According to the F&S Report, the demand for slope works will continue to grow at a CAGR of 7.4% from 2019 to 2023, reaching HK\$3,875.8 million in 2023. Our Controlling Shareholders believe that such forecasted growth in the slope works industry will continue to support our business growth in the foreseeable future.
- As mentioned above, there is no assurance on whether any of the Divested Customers will cease or scale down their operations in the construction-related industries according to their internal commercial decisions in the future. As such, our Controlling Shareholders believe that it is in our long-term interest to become an Approved Specialist Contractor so that we can take a more proactive role in obtaining public sector projects directly from the Government, instead of solely relying on tender invitations provided to us by main contractors.
- In addition, as part of their commitments to the long-term development of our Group, each of our Controlling Shareholders has provided an undertaking to our Company on (i) non-disposal of their shareholdings in our Company for an extended period of 30 months from the date on which dealings in our Shares commenced on the Stock Exchange; and (ii) no fundamental change in our principal business in the period which they remain as Controlling Shareholders. For further details of these undertakings, please refer to the paragraph headed "Relationship with controlling shareholders – Undertakings by our controlling shareholders" in this prospectus.

Our business relationships with Tai Kam Construction Engineering Company Limited

(i) Details of our projects with Tai Kam Construction Engineering Company Limited

The following table sets out the details of our projects with Tai Kam Construction Engineering Company Limited during the Track Record Period and up to the Latest Practicable Date. All of these projects were introduced to our Group by Mr. Lau King Shun, a director of Tai Kam Construction Engineering Company Limited, through tender invitations:

Project No.	Estimated contract sum (Note 1)	Private/ Public sector	Location of the project	Date of commencement and completion of our works (Note 2)	Scope of works (Note 3)	Revenue (percentage of total revenue recognised for the year/period)						Gross profit		From 1 June 2019 to the Latest Practicable Date HKS'000 (Unaudited)	Gross profit margin during the Track Record Period %		
						FY2017 HKS'000	FY2018 HKS'000	%	Five months ended 31 May 2019 HKS'000	%	From 1 June 2019 to the Latest Practicable Date HKS'000	%	FY2017 HKS'000			FY2018 HKS'000	Five months ended 31 May 2019 HKS'000
A1	78,000	Public	Various locations in Kowloon, New Territories and Outlying Islands	Commencement: June 2015 Completion: February 2020	(I),(II),(V), (VI), (VII), (VIII)	39,934	15,704	14.1	2,311	3.1	-	-	7,870	3,594	576	-	20.8 (Note 4)
A2	59,540	Public	Nam Chung and Sai Kung	Commencement: June 2015 Completion: December 2019	(I),(IV), (V), (VI), (VII), (VIII)	29,592	12,277	11.0	424	0.6	800	1.0	5,640	2,781	58	143	20.0 (Note 5)
A3	2,578	Public	Kwai Tsing	Commencement: February 2018 Completion: September 2018	(I),(VIII)	-	2,411	2.2	-	-	-	-	-	951	-	-	39.4
A4	1,992	Public	Cheung Chau	Commencement: August 2018 Completion: February 2019	(I), (II)	-	1,953	1.8	56	0.1	-	-	-	391	8	-	19.9
A5	1,200	Public	Yuen Long	Commencement: February 2018 Completion: September 2018	(I), (V), (VIII)	-	1,280	1.2	-	-	-	-	-	647	-	-	50.5
A6	900	Public	Tsuen Wan	Commencement: January 2018 Completion: September 2018	(I)	-	953	0.9	-	-	-	-	-	472	-	-	49.5
A7	52,000	Public	Various locations in Kowloon and New Territories	Commencement: January 2013 Completion: November 2017	(I), (II), (IV), (V), (VI), (VII), (VIII)	401	-	0.4	-	-	-	-	39	-	-	-	9.7 (Note 6)
A8	150	Public	Shatin	Commencement: January 2017 Completion: January 2017	Site clearance works for the installation of soilnails	150	-	0.2	-	-	-	-	72	-	-	-	48.0

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Notes:

1. The estimated contract sum represents the original estimated contract sum stated in the contract and does not take into account variation orders.
2. Where applicable, future completion dates represent our management's best estimates according to the expected completion dates specified in the relevant contracts (if any) and the actual work schedule up to the Latest Practicable Date.
3. Our major types of slope works can be categorised as follows:
 - (I) drilling and installation of soil nails;
 - (II) construction of retaining walls;
 - (III) installation of debris flow protection rigid barriers;
 - (IV) construction of flexible barrier system;
 - (V) installation of raking drains;
 - (VI) installation of wire meshes and mats for erosion control;
 - (VII) construction of concrete maintenance stairway/access; and
 - (VIII) landscape softworks and establishment works
4. The average gross profit margin of Projects A1 for the period from the commencement date and up to 31 May 2019 was approximately 18.7%.
5. The average gross profit margin of Projects A2 for the period from the commencement date and up to 31 May 2019 was approximately 17.4%.
6. The average gross profit margin of Projects A7 for the period from the commencement date and up to completion date was approximately 4.6%.

Set out below are detailed descriptions of our major scope of works in Project A1, A2 and A7:

	Preliminary works	General works	Geotechnical works	Surface protection and associated works	Landscape softworks and establishment works
Project A1	Establishment of site offices and related facilities Provision, operation and maintenance of the contract transportation facilities Site management and implementation of trip ticket system for disposal of construction waste Site surveying Preparation and implementation of safety plan and measures Preparation and implementation of environmental measures Design, application and implementation of temporary traffic arrangement for carrying out of works	General site clearance to remove the debris for works commencement Erection and dismantlement after use of the site hoardings and related facilities Construction of drainage works, footways and paved area Construction of different wall structures Excavation in soil, rock and artificial hard material Trimming slope to the design profile Construction of concrete/steel maintenance staircase/stairway Erection and dismantlement after use of temporary steel platform	Stripping to existing soil slope surface Removal of boulders and rock scaling Construction of dowel bar Construction of soil nails and pull-out tests, with associated corrosion protection works Construction of various types of soil nail head Construction of raking drain Construction of relief drain at potential seepage plane	Sprayed concrete with fabric steel mesh as slope surface Painting on concrete surface Planter hole installation over concrete surface Laying of granite stone facing Laying of wire meshes and mats for erosion control	Tree survey and tree risk assessment on existing trees and reports on updating in the course of works Preservation and protection measure to existing preserved trees General ground cleaning Hydro-seeding with seasonal grass seed mix Planting of small shrubs or herbaceous plants

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	Preliminary works	General works	Geotechnical works	Surface protection and associated works	Landscape softworks and establishment works
Project A2	<p>Establishment of site offices and related facilities</p> <p>Provision, operation and maintenance of the contract transportation facilities</p> <p>Site management and implementation of trip ticket system for disposal of construction waste</p> <p>Site surveying</p> <p>Preparation and implementation of safety plan and measures</p> <p>Preparation and implementation of environmental measures</p> <p>Design, application and implementation of temporary traffic arrangement for carrying out of works</p> <p>Baseline environmental survey and monitoring</p>	<p>General site clearance to remove the debris for works commencement</p> <p>Erection and dismantlement after use of the site hoardings</p> <p>Construction of drainage works, footways and paved areas</p> <p>Construction of reinforced concrete deflection wall</p> <p>Excavation in soil, rock and artificial hard material for the works</p> <p>Trimming slope to the design profile</p> <p>Construction of concrete/steel maintenance staircase/stairway</p>	<p>Stripping to existing soil slope surface</p> <p>Removal of boulders and rock sealing</p> <p>Construction of dowel bar</p> <p>Construction of soil nails and pull-out tests, with associated protection works</p> <p>Construction of varies types of soil nail head</p> <p>Construction of raking drain</p> <p>Design, submission, and construction of flexible barrier system</p>	<p>Sprayed concrete with fabric steel mesh as slope surface</p> <p>Sprayed concrete infill over the soil slope surface</p> <p>Painting on concrete surface</p> <p>Planter hole installation over concrete surface</p> <p>Laying of granite stone facing</p> <p>Laying of wire meshes and mats for erosion control</p>	<p>Tree survey and tree risk assessment on existing trees and reports on updating in the course of works</p> <p>Preservation and protection measure to existing preserved trees</p> <p>General ground cleaning</p> <p>Hydro-seeding with seasonal grass seed mix</p> <p>Planting of small shrubs or herbaceous plants</p>

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	Preliminary works	General works	Geotechnical works	Surface protection and associated works	Landscape softworks and establishment works
Project A7	<p>Establishment of site offices and related facilities</p> <p>Provision, operation and maintenance of the contract transportation facilities</p> <p>Site management and implementation of trip ticket system for disposal of construction waste</p> <p>Site surveying</p> <p>Preparation and implementation of safety plan and measures</p> <p>Preparation and implementation of environmental measures</p> <p>Setting out and defining of lot boundary</p> <p>Design, application and implementation of temporary traffic arrangement for carrying out of works</p>	<p>Erection and dismantlement after use of the site hoardings</p> <p>Construction of drainage works, footways and paved area</p> <p>Construction of different wall structures</p> <p>Construction of grid beam or tie-beam for soil nails including earthworks, formwork, concrete and reinforcement</p> <p>Excavation in soil, rock and artificial hard material for the works</p> <p>Trimming slope to the design profile</p> <p>Construction of concrete/steel maintenance staircase/stairway</p> <p>Erection and dismantlement after use of temporary steel platform</p>	<p>Stripping to existing soil slope surface</p> <p>Removal of boulders and rock scaling</p> <p>Construction of dowel bar</p> <p>Construction of soil nails and pull-out tests, with associated protection works</p> <p>Construction of various types of soil nail head</p> <p>Construction of raking drain</p> <p>Construction of relief drain at potential seepage plane</p> <p>Design, submission, and construction of flexible barrier system</p>	<p>Sprayed concrete with fabric steel mesh as slope surface</p> <p>Sprayed concrete infill over the soil slope surface</p> <p>Painting on concrete surface</p> <p>Planter hole installation over concrete surface</p> <p>Laying of granite stone facing</p> <p>Laying of wire meshes and mats for erosion control</p>	<p>Tree survey and tree risk assessment on existing trees and reports on updating in the course of works</p> <p>Preservation and protection measure to existing preserved trees</p> <p>General ground cleaning</p> <p>Hydro-seeding with seasonal grass seed mix</p> <p>Planting of small shrubs or herbaceous plants</p>

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(ii) The decrease in percentage of revenue contribution from Tai Kam Construction Engineering Company Limited during the Track Record Period

The percentage of our revenue attributable to Tai Kam Construction Engineering Company Limited decreased from approximately 74.3% in FY2017 to approximately 31.1% in FY2018, and further decreased to approximately 3.7% for the five months ended 31 May 2019. The decrease in percentage of revenue contribution from Tai Kam Construction Engineering Company Limited was mainly because:

- (i) we allocated a larger part of our resources in undertaking the sizeable projects with other existing customers, in particular, Fong On Construction Limited and Customer D. In FY2017, we were awarded two sizeable projects, namely Projects #02 and #03, from Fong On Construction Limited and Customer D, respectively. Substantial portion of works for Projects #02 and #03 were performed in FY2018, which generated approximately 27.2% and approximately 25.7% of our total revenue for the year, respectively. These two projects contributed to the significant increase in revenue attributable to Fong On Construction Limited from approximately 13.9% in FY2017 to approximately 30.4% in FY2018, and Customer D from approximately 3.6% in FY2017 to approximately 25.7% in FY2018;
- (ii) our two largest projects with Tai Kam Construction Engineering Company Limited, namely Projects A1 and A2, had commenced in FY2015, and substantial portion of these two projects were completed by the end of FY2017. Meanwhile, those new projects with Tai Kam Construction Engineering Company Limited which commenced in FY2018 (i.e. Projects A3 to A6) were comparatively small in scale, with estimated contract sum ranging from approximately HK\$0.9 million to approximately HK\$2.6 million. As most of the works for Projects A1 and A2 were completed by the end of FY2017 and the other new projects with Tai Kam Construction Engineering Company Limited were small in scale, the revenue attributable to Tai Kam Construction Engineering Company Limited had decreased in FY2018; and
- (iii) we have made consistent effort in expanding and diversifying our customer base. In FY2018, we have obtained three projects from a new customer, namely Geotech Engineering Limited, with estimated contract sum of approximately HK\$6.0 million, HK\$20.0 million and HK\$30.0 million, respectively. Geotech Engineering Limited contributed revenue of approximately HK\$5.4 million to us in FY2018, representing approximately 4.8% of our total revenue in the same year. In the five months ended 31 May 2019, we have obtained one project from a new customer, namely customer G, with estimated contract sum of approximately HK\$20.0 million. Customer G contributed revenue of approximately HK\$3.0 million to us in the five months ended 31 May 2019, representing approximately 4.0% of our total revenue in the same period. Our success in developing business relationship with Geotech Engineering Limited in FY2018 and Customer G during the five months ended 31 May 2019 has contributed to the decrease in our revenue attributable to Tai Kam Construction Engineering Company Limited during the same periods.

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(iii) Process through which projects were awarded by Tai Kam Construction Engineering Company Limited to our Group

The process through which projects were awarded by Tai Kam Construction Engineering Company Limited to our Group was in line with our operation flow set out in the paragraph headed “Business operations – operation flow” in this section above and substantially similar to the arrangements with our other customers. We received tender invitations from Tai Kam Construction Engineering Company Limited from time to time during the Track Record Period. Based on the tender documents received, we would conduct an internal review and decide whether to proceed with the preparation of tender, taking into account, scope of services, expected complexity and our available human resources. Our executive Directors are primarily responsible for the preparation of tender proposal. Our tender proposal to Tai Kam Construction Engineering Company Limited generally includes our scope of services, proposed service fees, payment terms, defect liability period and duration of the project. After receiving our tender proposal, Tai Kam Construction Engineering Company Limited may arrange interviews with us or require us to answer queries in relation to our tender submission. Tai Kam Construction Engineering Company Limited generally confirms our engagement by entering into a formal service contract with us.

Prior to joining our Group, each of Mr. Sieh and Mr. Ho had worked for Tai Kam Construction Engineering Company Limited as a site agent from June 2011 to August 2016 and from November 2011 to August 2016, respectively. For further details, please refer to the section headed “Directors and senior management” in this prospectus. Neither Mr. Sieh nor Mr. Ho has/had any present/past shareholding in Tai Kam Construction Engineering Company Limited.

During the period from January 2013 to August 2016, when each of Mr. Sieh and Mr. Ho was working for Tai Kam Construction Engineering Company Limited, our Group was awarded with three projects by Tai Kam Construction Engineering Company Limited as a subcontractor, namely Project A7, Project A2 and Project A1. During the same period, the shareholders and directors of A-City Workshop were Ms. Cao Hongmei (“**Ms. Cao**”), the spouse of Mr. Sieh and Ms. Lee Kim Kum (“**Ms. Lee**”), the spouse of Mr. Ho.

Although Mr. Sieh and Mr. Ho were working for Tai Kam Construction Engineering Company Limited during the period from January 2013 to August 2016, the Sponsor is of the view that neither Mr. Sieh nor Mr. Ho is/was able to exert any significant influence on the senior management team of Tai Kam Construction Engineering Company Limited who are/were involved in the selection process of subcontractors, taking into consideration the following factors:

- (i) during the period from January 2013 to August 2016, neither Mr. Sieh nor Mr. Ho was a director or shareholder of A-City Workshop and neither of them had any beneficial interest or management presence in A-City Workshop;
- (ii) when A-City Workshop first submitted its tender to Tai Kam Construction Engineering Company Limited for subcontracting works in the projects mentioned above, both Mr. Sieh and Mr. Ho had disclosed to Tai Kam Construction Engineering Company Limited their spousal interests in A-City Workshop on a full and frank basis;

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- (iii) during the period when Mr. Sieh and Mr. Ho worked as site agents for Tai Kam Construction Engineering Company Limited, neither of them had been included in its senior management team or involved in the selection process of subcontractors or the process involving seeking of quotation from suppliers and/or subcontractors, procurement of materials from suppliers, certification of project completion or payment to suppliers and/or subcontractors, of the aforementioned projects;
- (iv) Project A7, Project A2 and Project A1 were public sector projects. For public sector projects, the Government generally appoints an independent consultant as its representative to supervise the execution of the project. Site agents, being the representative of the main contractor in the slope works project, shall follow the instructions and requirements of such consultant from time to time;
- (v) following the departure of Mr. Sieh and Mr. Ho from Tai Kam Construction Engineering Company Limited in August 2016 and up to the Latest Practicable Date, neither of them had any roles in Tai Kam Construction Engineering Company Limited; and
- (vi) as discussed in details below, the terms and conditions of our Group's transactions with Tai Kam Construction Engineering Company Limited were on normal commercial terms and comparable to transactions with our other customers.

(iv) Principal terms of engagement with Tai Kam Construction Engineering Company Limited

We undertake slope works on a project-by-project basis with Tai Kam Construction Engineering Company Limited, which is in line with the slope works industry practice in Hong Kong. The principal terms of our engagement with Tai Kam Construction Engineering Company Limited are set out in the formal service contracts, details of which are set forth below:

Contract sum

Our contracts with Tai Kam Construction Engineering Company Limited are on re-measurement basis. The final contract sum will be determined based on the agreed unit rates and the actual quantities of work done. The contract contains an estimated contract sum, which is determined by the agreed unit rates of each item and the estimated total quantities of items of works set out in the bill of quantities.

Payment terms

Our Group generally submits a progress payment application to Tai Kam Construction Engineering Company Limited on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, Tai Kam Construction Engineering Company Limited or its authorised person will examine and certify our works done by endorsing on our payment application or issuing a payment certificate to us. Tai Kam Construction Engineering Company Limited generally adopts a "pay when paid" policy with us and they have the rights to pay us within 7 days after collection of payments from their customers.

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Defect liability period

We generally provide a defect liability period for projects awarded by Tai Kam Construction Engineering Company Limited. During the defect liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our neglect or failure to comply with our contractual obligation.

Retention money

The arrangement for retention money is subject to the terms of the main contracts between the Government and Tai Kam Construction Engineering Company Limited. Pursuant to the contracts, the retention money will be released upon the expiry of the defect liability period following the completion date of the project.

Liquidated damages

We are liable to pay liquidated damages to Tai Kam Construction Engineering Company Limited if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract.

Termination

Tai Kam Construction Engineering Company Limited may terminate our contracts if, among other things, we fail to execute the agreed scope of works, or if we cause undue delay to the overall progress of the project.

Our executive Directors confirmed and the Sponsor concurred that our transactions with Tai Kam Construction Engineering Company Limited during the Track Record Period and up to the Latest Practicable Date were conducted on normal commercial terms and comparable to the transactions with our other customers, taking into consideration:

- (i) our gross profit margin attributable to Tai Kam Construction Engineering Company Limited for FY2017, FY2018 and the five months ended 31 May 2019 was approximately 19.4%, 25.6% and 23.0%, respectively. As mentioned above, those new projects with Tai Kam Construction Engineering Company Limited which commenced in 2018 (namely, Projects A3 to A6) were comparatively small in scale. Therefore, our Group was able to perform most of the works involved in some of these projects with our own labour, resulting in smaller portion of works delegated to our subcontractors. Given that a profit mark-up is generally factored in the subcontracting expenses charged by subcontractors, we were able to attain a higher gross profit margin from these new projects as a result of less involvement of subcontracting services. In addition, as the work schedule of those small scale projects was relatively tight and their estimated contract sum was relatively small, we had charged a higher profit margin in our tender price. Besides, the work sites of some projects (including Project A3, A5, A6 and A8) are located in the same or nearby areas of other projects undertaken by us in the past. Leveraging on our understanding and familiarity with the geological conditions of the sites areas, less site planning and surveying works were required for our site preparations, thereby reducing the associated costs incurred by us. Further, our prior experience in carrying out slope works in the same or nearby areas also allows us to better assess the complexity of the projects and the relevant standards and requirements

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of the Government authority. Our executive Directors believed that such track record would be considered favourably by Tai Kam Construction Engineering Company Limited when assessing our tenders and hence decided to charge a higher markup in our tender price for such projects. During the Track Record Period, our gross profit margin attributable to the two largest projects with Tai Kam Construction Engineering Company Limited, namely Projects A1 and A2, were 20.6% and 20.1%, respectively. Given that (a) the percentage of revenue contribution by Tai Kam Construction Engineering Limited decreased from 74.3% in FY2017 to 31.1% in FY2018, and further decreased to approximately 3.7% for the five months ended 31 May 2019 while we achieved growth in our business by undertaking more works for other customers, and (b) the gross profit margin attributable to Projects A1 and A2 were in line with our overall gross profit margin (i.e. 20.0% for FY2017, 19.4% for FY2018 and 18.9% for the five months ended 31 May 2019) during the Track Record Period, our executive Directors consider that there is no material deviation in the profitability attributable to Tai Kam Construction Engineering Company Limited and other major customers.

- (ii) our gross profit margin attributable to customers other than Tai Kam Construction Engineering Company Limited ranged from 13.1% to 24.5% for FY2017, from 4.7% to 25.4% for FY2018 and from 10.3% to 49.8% for the five months ended 31 May 2019, while our gross profit margin attributable to Tai Kam Construction Engineering Company Limited was 19.4% for FY2017, 25.6% for FY2018 and 23.0% for the five months ended 31 May 2019. As such, there is no material deviation in our gross profit margin attributable to Tai Kam Construction Engineering Company Limited from the range of our gross profit margin attributable to other customers during the Track Record Period.
- (iii) our terms of engagement with Tai Kam Construction Engineering Company Limited were substantially similar to that with our other customers as set out in the paragraph headed “Our customers – Principal terms of engagement” above in this section.

(v) ***Contra-charge arrangement with Tai Kam Construction Engineering Company Limited***

During the Track Record Period, Tai Kam Construction Engineering Company Limited had purchased materials and other miscellaneous items such as site planning and surveying services, machinery rental and motor vehicle expenses on our behalf. Such amounts were subsequently deducted when Tai Kam Construction Engineering Company Limited settled our service fees for the project under contra-charge arrangement. Our contra-charge arrangement with Tai Kam Construction Engineering Company Limited was similar to that with our other customers. Further, according to the F&S Report, it is common in the industry that a main contractor may pay on behalf of its subcontractors for certain expenses for a project. For further details on our contra-charge arrangements with customers, please refer to the paragraph headed “Top customers who were also our suppliers – (I) Contra-charge arrangements” below in this section.

For FY2017, FY2018 and the five months ended 31 May 2019, our contra-charge incurred for the purchase of materials and other miscellaneous items from Tai Kam Construction Engineering Company Limited amounted to approximately HK\$7.6 million, HK\$2.6 million and HK\$52,000, representing approximately 10.0%, 3.0% and 0.1% of our costs of services, respectively. The decrease in amount of contra-charge attributable to Tai

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Kam Construction Engineering Company Limited was mainly due to the decrease in our revenue generated from Tai Kam Construction Engineering Company Limited during the same period.

(vi) Our strategy in sourcing new slope works projects

During the Track Record Period and up to the Latest Practicable Date, we have remained open to undertaking slope works projects of different scale and hence we have not and will not limit ourselves to sizeable projects only. Upon receiving a tender invitation, our executive Directors would review and evaluate the tender and/or project details available to us. As we prepare our tender proposal and determine our tender price, our executive Directors would take into account the scope of services, scale of the project, project duration and our availability of manpower and resources. Accordingly, the size of the projects we undertake may vary from time to time depending on the scale and nature of the project tender we receive as well as our then available manpower resources. Our executive Directors believe that our Group is capable of obtaining new projects of various scale from customers other than Tai Kam Construction Engineering Company Limited taking into consideration the following factors:

- (a) during the Track Record Period and up to the Latest Practicable Date, our Group had made consistent effort in diversifying our customer base. Tai Kam Construction Engineering Company Limited was our fifth largest customer for the five months ended 31 May 2019. Meanwhile, Customer G, being a new customer in FY2019, surpassed the ranking of Tai Kam Construction Engineering Company Limited and became our fourth largest customer for the five months ended 31 May 2019; and
- (b) our Group has been able to obtain projects with size comparable to those awarded by Tai Kam Construction Engineering Company Limited to us. In FY2017, our Group was awarded with a project (i.e. Project #03) with an estimated contract sum of HK\$98.0 million by Customer D, which represented our largest project in terms of estimated contract sum during the Track Record Period. In the same year, our Group was also awarded with a sizeable project (i.e. Project #02) with an estimated contract sum of HK\$46.0 million by Fong On Construction Limited, being a new customer for FY2017. In FY2018, our Group was awarded with (i) a project with an estimated contract sum of HK\$22.9 million by Fong On Construction Limited; and (ii) two projects (i.e. Project F2 and Project F3) with estimated contract sum of HK\$20.0 million and HK\$30.0 million, respectively, by Geotech Engineering Limited, being a new customer for FY2018. From 1 January 2019 up to the Latest Practicable Date, we further obtained three projects (i.e. Projects F4 to F6) from Geotech Engineering Limited with aggregate estimated contract sum of approximately HK\$89.0 million.

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Customer concentration

For each of FY2017, FY2018 and the five months ended 31 May 2019, the percentage of our total revenue attributable to our top customer amounted to approximately 74.3%, 31.1% and 41.2%, respectively. The percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 98.5% and 97.9%, respectively for the same periods. Our Directors consider that our Group's business model is sustainable despite such customer concentration due to the following factors:

- We have made consistent effort in expanding and diversifying our customer base. The number of customers which generated revenue to us increased from five in FY2017 to seven in FY2018.
- We were able to maintain our profitability as evidenced by the increase in our gross profit from HK\$18.9 million in FY2017 to HK\$21.6 million in FY2018, while reducing our reliance on our top customer during the Track Record Period (i.e. Tai Kam Construction Engineering Company Limited). The percentage of our revenue attributable to Tai Kam Construction Engineering Company Limited decreased from 74.3% in FY2017 to 31.1% in FY2018, and further decreased to approximately 3.7% for the five months ended 31 May 2019.
- Three projects with total estimated contract sum of HK\$70.0 million were awarded in FY2018 by Geotech Engineering Limited, one of our new customers for FY2018. This demonstrates our consistent effort in reducing our customer concentration and expanding our customer base.
- Subsequent to 31 December 2018, we have further enlarged our customers base and established business relationship with Customer G. Customer G awarded a project with estimated contract sum of HK\$20.0 million to our Group. For further details of Customer G, please refer to the paragraph "Further information on our top customers" above in this prospectus.

Top customers who were also our suppliers

(I) Contra-charge arrangements

During the course of our business, there may be occasions where our customers pay on our behalf for materials and other miscellaneous items such as site planning and surveying services, machinery rental and motor vehicle expenses required in our projects and subsequently deduct such payments when settling our service fees for the project. According to the F&S Report, it is common in the industry that a main contractor may pay on behalf of its subcontractors for certain expenses for a project. Such arrangement is generally known as "contra-charge arrangement" and the amounts involved are referred to as "contra-charge". During the Track Record Period, we had contra-charge arrangements with our customers, including Tai Kam Construction Engineering Company Limited, Fong On Construction Limited, Customer C, Customer D, Customer E, Geotech Engineering Limited and Customer G. In this context, we regard such customers as our suppliers as well. Such contra-charge generally included purchase cost of materials and other miscellaneous items. Upon our

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request, our customers may purchase materials and arrange other miscellaneous items on our behalf and such amounts are subsequently settled under contra-charge arrangements. Effectively, the payments due to us from our customers under our projects will be settled after netting off such contra-charge amounts.

For FY2017, FY2018 and the five months ended 31 May 2019, our contra-charge incurred for the purchase of materials and other miscellaneous items from our top customers amounted to approximately HK\$9.7 million, HK\$13.0 million and HK\$13.2 million, representing approximately 12.9%, 14.5% and 21.6% of our cost of services for the corresponding period, respectively.

The following table sets forth the information on our customers from whom we had contra-charge arrangement during the Track Record Period:

	FY2017		FY2018		Five months ended 31 May 2019	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Tai Kam Construction Engineering Company Limited						
Revenue derived and approximate % of our total revenue	70,077	74.3	34,578	31.1	2,791	3.7
Contra charge amounts and approximate % of our costs of services	7,564	10.0	2,649	3.0	52	0.1
Fong On Construction Limited						
Revenue derived and approximate % of our total revenue	13,135	13.9	33,770	30.4	31,078	41.2
Contra charge amounts and approximate % of our costs of services	1,932	2.6	2,721	3.0	2,377	3.9
Customer C						
Revenue derived and approximate % of our total revenue	7,157	7.6	7,257	6.5	1,120	1.5
Contra charge amounts and approximate % of our costs of services	19	–	–	–	–	–

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	FY2017		FY2018		Five months ended 31 May 2019	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Customer D						
Revenue derived and approximate % of our total revenue	3,390	3.6	28,556	25.7	21,499	28.6
Contra charge amounts and approximate % of our costs of services	213	0.3	2,606	2.9	2,597	4.3
Customer E						
Revenue derived and approximate % of our total revenue	564	0.6	1,503	1.4	463	0.6
Contra charge amounts and approximate % of our costs of services	–	–	82	0.1	69	0.1
Geotech Engineering Limited						
Revenue derived and approximate % of our total revenue	–	–	5,380	4.8	15,325	20.4
Contra charge amounts and approximate % of our costs of services	–	–	4,893	5.5	7,774	12.7
Customer G						
Revenue derived and approximate % of our total revenue	–	–	–	–	3,010	4.0
Contra charge amounts and approximate % of our costs of services	–	–	–	–	284	0.5

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Business arrangement with Geotech Engineering Limited

Geotech Engineering Limited was one of our new customers for FY2018. During the Track Record Period and up to the Latest Practicable Date, we obtained six projects through tender process upon invitations from Geotech Engineering Limited, details of which are set forth in the table below:

Project No.	Estimated contract sum (Note 1) HK\$'000	Private/ Public sector	Location of the Project	Date of commencement and completion of our works (Note 2)	Scope of works (Note 3) HK\$'000	Revenue recognised during the Track Record Period HK\$'000	Gross profit margin during the Track Record Period %
F1	6,000	Public	Various locations in Hong Kong Island, New Territories West and Lantau Island	Commencement: January 2018 Completion: October 2018	(I), (V), (VI), (VII)	FY2018: 5,379	4.8
F2	20,000	Public	Various locations in Hong Kong Island, New Territories West and Lantau Island	Commencement: January 2019 Completion: December 2019	(I), (V), (VI), (VII)	Five months ended 31 May 2019: 5,031	19.2
F3	30,000	Public	Various locations in Kowloon and New Territories	Commencement: January 2019 Completion: December 2019	(I), (V), (VI), (VII)	Five months ended 31 May 2019: 9,625	19.0
F4	20,000	Public	Various locations in Hong Kong	Commencement: February 2019 Completion: February 2020	(I), (V), (VI), (VII)	Five months ended 31 May 2019: 669	3.7 (Note 4)
F5	41,000	Public	Various locations in Hong Kong	Commencement: February 2020 Completion: February 2021	(I), (V), (VI), (VII)	–	–
F6	28,000	Public	Various locations in Kowloon and New Territories	Commencement: December 2019 Completion: December 2020	(I), (V), (VI), (VII)	–	–

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Notes:

1. The estimated contract sum represents the original estimated contract sum stated in the contract and does not take into account variation orders.
2. Where applicable, future completion dates represent our management's best estimates according to the expected completion dates specified in the relevant contracts (if any) and the actual work schedule up to the Latest Practicable Date.
3. Our major types of slope works can be categorised as follows:
 - (I) drilling and installation of soil nails;
 - (II) construction of retaining walls;
 - (III) installation of debris flow protection rigid barriers;
 - (IV) construction of flexible barrier system;
 - (V) installation of raking drains;
 - (VI) installation of wire meshes and mats for erosion control;
 - (VII) construction of concrete maintenance stairway/access; and
 - (VIII) landscape softworks and establishment works
4. The profit margin attributable to Project F4 for the five months ended 31 May 2019 was approximately 3.7% mainly because such project was still in the preliminary stage as project preparation works were being carried out during the same period.

Our executive Directors confirmed and the Sponsor concurred that the terms of our transactions with Geotech Engineering Limited during the Track Record Period and up to the Latest Practicable Date were conducted on normal commercial terms and comparable to the transactions with our other customers, given that (i) we obtained our projects from Geotech Engineering Limited through tender process upon its invitation and the projects were awarded to us on a project-by-project basis, which is consistent with the industry practice according to the F&S Report; and (ii) our terms of engagement with Geotech Engineering Limited were substantially similar to that with our other customers as set out in the paragraph headed "Our customers – Principal terms of engagement" above in this section. The low gross profit margin attributable to Geotech Engineering Limited for FY2018 (i.e. 4.8%) was mainly due to the one-off occasion of Project F1, being our first project awarded by Geotech Engineering Limited, which is discussed in further details below.

Project F1 is the first project awarded to us by Geotech Engineering Limited. We had factored in a relatively low profit margin in determining the tender price for Project F1 as we were keen to develop business relationship with Geotech Engineering Limited. Geotech Engineering Limited is a subsidiary of a company listed on the Main Board of the Stock Exchange with the provision of construction and engineering services including slope works in Hong Kong as principal business activities. According to the F&S Report, Geotech Engineering Limited was one of the top five largest players in the Hong Kong slope works

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industry in 2018. Having considered (i) the company scale and market presence of Geotech Engineering Limited in the slope works industry, and (ii) our prospects of obtaining additional contracts from Geotech Engineering Limited, our executive Directors believe that it is in our interest to adopt a more competitive pricing in order to secure the award of Project F1, and such practice is in line with our consistent effort in expanding and diversifying our customer base.

In respect of Project F1, the contra-charge incurred by us was equivalent to approximately 90.9% of our revenue derived from Project F1 in FY2018. The amount of contra-charge incurred by us in Project F1 was relatively high due to the following reasons:

- (i) as we had no prior business relationship with Geotech Engineering Limited, Geotech Engineering Limited had deployed additional site planning and surveying personnel to demonstrate its quality control requirements and to inspect and assess whether our quality control procedures were in line with its internal practice. The inspection and assessment conducted by Geotech Engineering Limited covered various aspects including our work quality, environmental management measures and occupational health and safety policies. The cost of such site planning and surveying works undertaken by the personnel of Geotech Engineering Limited were chargeable to us, resulting in a higher amount of contra-charge incurred for the project. Given that we had fulfilled Geotech Engineering Limited's quality control requirements in Project F1 to its satisfaction, Geotech Engineering Limited deployed less site planning and surveying personnel for quality control in Projects F2, F3 and F4; and
- (ii) Geotech Engineering Limited requested us to use materials procured from its designated supplier for Project F1 in order to ensure the quality of materials. Since we had no prior business relationships with the designated supplier nor involvement in Geotech Engineering Limited's projects in the past, it was agreed that Geotech Engineering Limited would purchase, on our behalf, the necessary materials from the designated supplier and deduct the purchase amount from its payment to us, resulting in a higher amount of contra-charge incurred.

Based on the aforesaid, the lower gross profit margin of Project F1 was mainly attributable to the following reasons:

- (i) we had adopted a more competitive pricing by factoring in a lower profit margin in determining the tender price for Project F1, which was the first project awarded to us by Geotech Engineering Limited, for the purpose of strengthening our chance in securing the award of Project F1 and developing business relationship with Geotech Engineering Limited; and

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- (ii) we incurred a substantial amount of contra-charge to Geotech Engineering Limited, which was recognised as our cost of services for Project F1 because (i) Geotech Engineering Limited had deployed additional site planning and surveying personnel for conducting quality control inspection and assessment on our works as Project F1 was their first project awarded to us; and (ii) Geotech Engineering Limited had purchased certain materials on behalf of us. The amount of contra-charge incurred by us for Project F1 was equivalent to approximately 90.9% of our revenue derived from the same project in FY2018. The substantial amount of contra-charge incurred by us for Project F1 was subsequently net-off from payments due to us by Geotech Engineering Limited, thereby resulting in a lower gross profit margin from Project F1.

Subsequently, we have successfully obtained five additional projects from Geotech Engineering Limited, namely Projects F2 to F6, with aggregate estimated contract sum of approximately HK\$139.0 million up to the Latest Practicable Date. Our executive Directors believe the award of Projects F2 to F6 to us has indicated our satisfactory performance and Geotech Engineering Limited's confidence in our ability to undertake sizeable slope works projects. As such, our executive Directors decided to factor in a higher profit margin in the tender price of these projects than that in Project F1. For instance, the profit margin attributable to Project F2 and F3 for the five months ended 31 May 2019 are approximately 19.2% and 19.0%, respectively, which was comparatively higher than the profit margin of Project F1. The profit margin attributable to Project F4 for the five months ended 31 May 2019 was approximately 3.7% mainly because such project was still in the preliminary stage as project preparation works were being carried out during the same period. Projects F5 and F6 are expected to commence in February 2020 and December 2019, respectively.

(II) Purchase of materials from a fellow subsidiary of Fong On Construction Limited

Fong On Construction Limited is a wholly-owned subsidiary of a company listed on the Main Board of the Stock Exchange (the "**Fong On Holdco**"). According to the annual report of the Fong On Holdco for the year ended 31 December 2018, the principal activities of the subsidiaries of Fong On Construction Limited include (i) foundation and site formation works, (ii) general building works and associated services, and (iii) other construction works, which mainly include slope works and demolition works.

Supplier B1 is another wholly-owned subsidiary of Fong On Holdco. Supplier B1 was one of our major suppliers during the Track Record Period. During the Track Record Period, we engaged Supplier B1 to supply flexible barriers to us, resulting in materials charges incurred by us of approximately HK\$3.2 million, nil and nil for FY2017, FY2018 and the five months ended 31 May 2019, respectively. Our purchase of flexible barriers from Supplier B1 was unrelated to our projects with Fong On Construction Limited and the flexible barriers procured by us were used in a project with our other customer. For further details, please refer to the paragraph headed "Our suppliers – Top suppliers" below in this section.

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PRICING STRATEGY

We normally charge our customers based on actual work done according to the bill of quantities set out in the contract. Our pricing is generally determined based on certain mark-up over our estimated costs. We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs would not exceed our estimation during the performance of our projects. Please refer to the paragraph headed “Risk factors – Any significant cost overruns may materially and adversely affect our business operation and financial performance” in this prospectus for further details of the associated risks in this regard. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we did not experience any loss-making projects as a result of material inaccurate estimation or cost overruns.

In order to minimise the risk of inaccurate estimate and cost overrun, the pricing of our services is overseen by our management team, whose background and experience are disclosed in the section headed “Directors and senior management” in this prospectus, based on our pricing strategy described in the following paragraphs.

Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions.

We prepare our tender price based on a certain percentage of mark-up over our estimated cost. The percentage of mark-up may vary substantially from project to project due to factors such as (i) the size and duration of the project; (ii) business relationship with the customer; (iii) credit history and financial track record of the customer; (iv) the prospect of obtaining future contracts from the customer; (v) any possible positive effect of our Group’s reputation in the slope works industry; (vi) the likelihood of any material deviation of the actual cost from our estimation having regard to the price trend of key cost components; and (vii) the general market condition.

SALES AND MARKETING

During the Track Record Period, we secured new business mainly through direct invitations for tender by customers. On some occasions, we have approached the construction contractors which might have tendered for certain public sector projects we identified on gazettes or Government websites and discussed with them on the prospects of subcontracting the relevant works to us. Our Directors consider that due to our proven track record and our relationship with our existing customers, we are able to leverage on our existing customer base and our reputation in the slope works industry in Hong Kong such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management.

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Seasonality

Our Directors believe that the slope works industry in Hong Kong does not exhibit any significant seasonality as slope works projects take place throughout the year in Hong Kong based on the experience of our Directors.

OUR SUPPLIERS

Characteristics of our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) subcontractors; (ii) suppliers of materials; and (iii) suppliers of other miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. During the Track Record Period, our suppliers were located in Hong Kong and our purchases were denominated in Hong Kong dollars. Our suppliers generally grant us a credit term of 0 to 45 days. We have not adopted any “pay when paid” policy with our suppliers.

The following table sets forth a breakdown of our total purchase during the Track Record Period by type of suppliers:

	FY2017		FY2018		Five months ended 31 May 2018		Five months ended 31 May 2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(Unaudited)</i>							
Subcontracting services	20,457	43.0	24,820	44.0	10,641	39.6	17,853	42.2
Materials	15,385	32.4	15,781	27.9	7,435	27.7	12,438	29.4
Other services <i>(Note)</i>	11,676	24.6	15,862	28.1	8,765	32.7	12,036	28.4
Total	<u>47,518</u>	<u>100.0</u>	<u>56,463</u>	<u>100.0</u>	<u>26,841</u>	<u>100.0</u>	<u>42,327</u>	<u>100.0</u>

Note: These miscellaneous services mainly included site planning and surveying services, motor vehicle expenses and machinery rental services. For FY2017, FY2018 and the five months ended 31 May 2019, machinery rental costs incurred by us amounted to approximately HK\$2.0 million, HK\$2.1 million and HK\$1.9 million, respectively.

Please refer to the paragraph headed “Financial information – Principal components of results of operation – Cost of services” in this prospectus for a discussion of the fluctuation in our purchases from our suppliers during the Track Record Period as shown in the above table as well as the relevant sensitivity analyses in this connection. During the Track Record Period, we did not experience any material shortage or delay in the supply of goods and services that we required.

We may obtain quotations from our suppliers in making our cost estimation during the tender phase. We will contact the suppliers that we have obtained quotations from during the tender phase, and may further negotiate on the pricing and contract terms with them after we are awarded with the projects. Our Directors consider that we are generally able to pass on any substantial increase in purchase costs to our customers because (i) we generally take into account our overall cost of providing our services to customers when determining our

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pricing; and (ii) we are generally entitled to adjust our service fees regularly as stipulated in the contracts of our public sector projects with reference to the overall inflation level according to official statistics of the Government.

Principal terms of engagement

Subcontractors

Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain slope works. During the Track Record Period, we engaged our subcontractors mainly for performing soil nail works, shotcreting works and landscape works.

We engage our subcontractors on a project-by-project basis. We have not committed to any minimum purchase amount with our subcontractors. The salient terms included in our subcontracting agreements are summarised as follows:

Scope of services

The subcontracting agreement generally sets out the scope of services to be provided by our subcontractors. We require our subcontractors to complete the subcontracted works according to our customers' specifications, drawings and requirements.

Subcontracting expenses

The contracts with our subcontractors are mainly on re-measurement basis. Under the re-measurement contracts, the final contract sum will be determined based on the agreed unit rates of each item set out in the bill of quantities and the actual quantities of work done.

Defect liability period

Our subcontractors shall be responsible for rectifying works defects arising from works subcontracted to them at their own expenses for 12 months following the completion of the relevant subcontracted works.

Payment arrangements

Our subcontractors are required to submit monthly progress claim to us setting out the details of the completed work on a monthly basis.

Materials, machinery and equipment

Depending on the contract terms with our subcontractors, materials are generally (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors. We generally require our subcontractors to provide and arrange for the necessary machinery and equipment to be used in their works at their own costs.

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Safety and prohibition of illegal workers

Our subcontractors are required to carry out the subcontracted works in accordance with the relevant laws and regulations. Our subcontractors are also prohibited from hiring illegal workers. In the event of any non-compliance, the relevant subcontractor shall indemnify our Group against any action, loss, damages arising from such non-compliance.

Indemnity and termination

Subcontractors are required to indemnify our Group against any loss, expense or claim arising from the failure to comply with subcontracting agreement by the subcontractor and/or its employees. We are entitled to hold our subcontractors liable for any loss and damage suffered by our Group if their works are not performed in accordance with our requirements. We are also entitled to terminate the work order in the event of breach of contract by our subcontractor.

Suppliers of materials

We engage our materials suppliers on a project-by-project basis. We have not committed to any minimum purchase amount with our suppliers of materials. Our purchase orders generally specify the volume, delivery date, product specification and types of materials we required. The purchased materials are generally delivered directly to the project sites. Alternatively, we may arrange for the transportation of the purchased materials on our own account.

The major types of materials sourced from our materials suppliers included cement and concrete, steel reinforcement, landscape materials and flexible barriers. We typically arrange sample inspection on the materials upon their arrival. We have from time to time required our suppliers to provide us with certificates for the materials supplied to us. Depending on our customers' requirements, quality inspection/testing may be conducted by third party professionals for certain kinds of materials to be used in our projects. Any materials that fail to comply with the specifications or standards provided in the purchase order will be returned to the materials suppliers for replacement. Our materials suppliers charge us based on the total quantity of our purchase.

Suppliers of miscellaneous services

We also procure services from suppliers of miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. Our purchase orders generally specify the scope of services required and delivery date. We have not committed to any minimum purchase amount with our suppliers of miscellaneous services.

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Top suppliers

For each of FY2017, FY2018 and the five months ended 31 May 2019, the percentage of our total purchases from our top supplier amounted to approximately 15.9%, 8.7% and 18.4% respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 44.8%, 32.8%, 54.8% respectively. The following tables set out information of our top five suppliers for each of FY2017, FY2018 and the five months ended 31 May 2019:

FY2017

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Tai Kam Construction Engineering Company Limited ^(Note 1)	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works in Hong Kong	Mainly supply of materials, site planning and surveying services and machinery rental	Since 2013	<i>(Note 1)</i>	7,564	15.9
2	Supplier Group B ^(Note 2)	Subsidiaries of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong	Supplier B1: mainly supply of flexible barriers Fong On Construction Limited: supply of materials, site planning and surveying services and machinery rental	Since 2016	Supplier B1: Payment upon signing of the contract; by cheque Fong On Construction Limited: <i>(Note 2)</i>	5,089	10.7
3	Supplier C	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2013	45 days; by cheque	3,332	7.0
4	Supplier D	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2013	45 days; by cheque	2,963	6.2
5	Supplier E	A company engaged in, among others, landscaping works in Hong Kong	Mainly subcontracting of slope works	Since 2013	30 days; by cheque	2,345	4.9
				Top five suppliers combined		21,293	44.8
				All other suppliers		<u>26,225</u>	<u>55.2</u>
				Total purchases		<u><u>47,518</u></u>	<u><u>100.0</u></u>

Notes:

1. Tai Kam Construction Engineering Company Limited was one of our top customers for FY2017. Tai Kam Construction Engineering Company Limited was also one of our suppliers for FY2017 as a result of our contra-charge arrangement with Tai Kam Construction Engineering Company Limited. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers" above in this section.

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2. Supplier Group B consists of (i) Fong On Construction Limited which was one of our top five customers for FY2017 and FY2018; and (ii) Supplier B1, both being subsidiaries of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong. Supplier B1 supplied flexible barriers to us for our use in a project unrelated to Fong On Construction Limited. Fong On Construction Limited was one of our suppliers for FY2017 as a result of the contra-charge arrangement with us. For further details, please refer to the paragraph headed “Our customers – Top customers who were also our suppliers” above in this section.

FY2018

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Mainly supply of materials, site planning and surveying services, motor vehicle expenses and machinery rental	Since 2018	(Note)	4,893	8.7
2	Supplier E	A company engaged in, among others, landscaping works in Hong Kong	Mainly subcontracting of slope works	Since 2013	30 days; by cheque	3,811	6.7
3	Supplier D	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2013	45 days; by cheque	3,567	6.3
4	Supplier G	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2015	45 days; by cheque	3,355	5.9
5	Supplier H	A company engaged in, supplying building and construction materials in Hong Kong	Mainly supply of steel reinforcement	Since 2015	30 days; by cheque	2,895	5.1
Top five suppliers combined						18,521	32.8
All other suppliers						<u>37,942</u>	<u>67.2</u>
Total purchases						<u>56,463</u>	<u>100.0</u>

Note: Geotech Engineering Limited was one of our top customers for FY2018. Geotech Engineering Limited was also one of our suppliers for FY2018 as a result of our contra-charge arrangement with Geotech Engineering Limited. For further details, please refer to the paragraph headed “Our customers – Top customers who were also our suppliers” above in this section.

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Five months ended 31 May 2019

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Mainly supply of materials, site planning and surveying services and machinery rental	Since 2018	(Note)	7,774	18.4
2	Supplier G	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2015	45 days; by cheque	5,048	11.9
3	Supplier I	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	4,196	9.9
4	Supplier J	A sole proprietorship engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2018	45 days; by cheque	3,126	7.4
5	Customer D	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Mainly supply of site planning and surveying services and machinery rental	Since 2016	(Note)	3,050	7.2
Top five suppliers combined						23,194	54.8
All other suppliers						<u>19,133</u>	<u>45.2</u>
Total purchases						<u><u>42,327</u></u>	<u><u>100.0</u></u>

Note: Geotech Engineering Limited and Customer D were our top customers for the five months ended 31 May 2019. Geotech Engineering Limited and Customer D were also one of our suppliers for the five months ended 31 May 2019 as a result of our contra-charge arrangement with them. For further details, please refer to the paragraph headed “Our customers – Top customers who were also our suppliers” above in this section.

Save as disclosed above, none of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the top five suppliers of our Group during the Track Record Period.

Reasons for subcontracting arrangement

Our Directors confirm that subcontracting of works is in line with normal market practice in the Hong Kong slope works industry. During times when our labour resources are tight and depending on the types of specialised works involved, we may subcontract some of our works to other subcontractors, taking into account the availability of our labour resources and the schedule of works.

Basis of selecting our suppliers

Selection of subcontractors

We evaluate subcontractors taking into account their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. Based on these factors, we maintain an internal list of approved subcontractors which is updated on a continuous basis. As at 31 May 2019, there were more than 35 approved subcontractors on our internal list. When subcontracting services are required for a project, we typically obtain quotations from different suitable subcontractors for comparison and select our subcontractors based on their experience relevant to the particular project as well as their availability and fee quotations.

Selection of materials suppliers

We generally purchase materials from our internal list of approved materials suppliers. In selecting our suppliers of materials, we take into account various factors, including pricing, quality of material supplied, timeliness of delivery and ability to comply with our requirements and specifications. We maintain an internal list of approved suppliers which is updated on a continuous basis. As at 31 May 2019, there were more than 70 approved suppliers on our internal list of approved suppliers.

Control over subcontractors

We remain accountable to our customers for the performance and quality of work rendered by our subcontractors. In general, works performed by our subcontractors are inspected and monitored by our project management team based on our quality management system, environmental management system and occupational health and safety management system which are in conformity with the requirements of ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 standards respectively.

We have implemented the following measures to monitor the quality and progress of works outsourced to our subcontractors so as to ensure the compliance with our contract specifications:

- (i) our project management team conducts regular meetings with subcontractors' responsible personnel to review their performance and resolve any issues encountered in the course of their works;

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- (ii) our project management team reviews the works performed by our subcontractors on a continual basis during project implementation based on our quality control manual. We assess the performance of our subcontractors based on their (i) ability to meet delivery schedules; (ii) response to instructions; (iii) ability to honour the defect liability period; (iv) management commitment; (v) quality of services; and (vi) cost competitiveness;
- (iii) our subcontractors are required to follow our guidelines and instructions on workplace safety. Our project management team will closely monitor the on-site safety performance of our subcontractors; and
- (iv) we require our subcontractors to submit progress report to us on a regular basis.

QUALITY CONTROL

We believe that our commitment to quality services is crucial to our reputation and continual success. We place strong emphasis on service quality by implementing a comprehensive quality control system. A-City Workshop obtained certification certifying its quality management to be in conformance with the requirements of ISO 9001:2015 standard. In conformity with the ISO 9001:2015 standards, our Group has developed and implemented a quality manual which stipulates procedures and control in relation to quality management system, proper filing, communication with customers, revision on quality manual and procedures, employees' training, internal and external audits, evaluation and procurement of materials and subcontracting services and non-conforming works management.

The quality control measures adopted by our Group include the followings:

Collecting feedbacks from customers

Our executive Directors and senior management team regularly communicate with and conduct site visits to collect feedbacks from our customers. We would follow up and respond to the feedbacks from our customers in a timely manner with a view to maintain and continually improve our service standard. Throughout the project implementation, we may be invited to attend progress meetings held by our customers from time to time to resolve any issues identified in the projects.

Designation of project management team

A project management team is assigned for every project based on the project nature and the relevant qualifications and experiences required. The project management team is headed by the project manager/site agent who is responsible for the overall management of the project, including liaising and communicating with our customers, coordinating and providing guidance to the other team members, overseeing the progress, budget and quality of services rendered. Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will

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report on the project status and any issue identified throughout the project. After the review and endorsement by our project manager/site agent, the monthly progress reports will then be submitted to our customers for record.

Procurement of materials

Our Group maintains an approved list of suppliers which is updated on a regular basis. We typically arrange sample inspection on the materials upon their arrival. Please refer to the paragraph headed “Our suppliers – Basis of selecting suppliers – Selection of materials suppliers” for our procurement policies of materials. We have from time to time required our suppliers to provide us with certificates for the materials supplied to us. Our suppliers are responsible for replacing any materials which do not meet the relevant specifications or standards and any associated costs incurred.

Works performed by subcontractors

Our Group maintains an approved list of subcontractors which is updated on a regular basis. We selected our subcontractors based on their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. Please refer to the paragraph headed “Our suppliers – Basis of selecting suppliers – Selection of subcontractors” above in this section for further details in this regard.

INVENTORY

Materials are procured by us on a project-by-project basis to meet the estimated demand according to the work schedule of the projects. As such, we did not keep any inventories during the Track Record Period.

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MACHINERY AND MOTOR VEHICLES

We possess certain machinery and motor vehicles for use in our operation. Our owned machinery and motor vehicles mainly include:

(i)



Air compressor is mainly used for removing the excavated material by air lifting method from drilling and shotcreting operations

(ii)



Crane truck is mainly used for lifting and moving heavy materials

(iii)



Excavator is mainly used for performing excavation works

(iv)



Motor vehicle is mainly used for transporting our project management staff and site workers between different work sites

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The following table sets out the details of our machinery *(Note)*:

	Age as at the Latest Practicable Date	Remaining useful lives as at the Latest Practicable Date	As at 31 December 2017 <i>No. of units</i>	As at 31 December 2018 <i>No. of units</i>	As at 31 May 2019 <i>No. of units</i>	As at the Latest Practicable Date <i>No. of units</i>
Air compressor	2 years	3 years	2	2	2	2
Crane truck	1 year	4 years	1	1	1	1
Excavator	2 years	3 years	1	1	1	1
Motor vehicle	0-2 years	1-3 years	12	12	12	12
Total			<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>

Note: Our air compressors, crane truck and excavator have been fully utilised throughout the Track Record Period on the basis that they were deployed to our various work sites for use by our site workers on every working day unless the relevant machinery was under repair and maintenance. All of our motor vehicles were deployed to arrange transportation for our project management personnel and site workers among different work sites on every working day during the Track Record Period. On this basis, our motor vehicles were fully utilised during the Track Record Period.

As at the Latest Practicable Date, our Group owned two Regulated Machines, being air compressors, which are subject to the NRMM Regulation. For further details, please refer to the paragraph headed “Regulatory Overview – Environmental protection – Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)”.

We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. During the Track Record Period, we have also leased certain machinery and equipment such as generators and air compressors from our customers or rental service providers for the use in our slope works, where necessary. For each of FY2017, FY2018 and the five months ended 31 May 2019, machinery and equipment rental costs incurred by us amounted to approximately HK\$2.0 million, HK\$2.1 million and HK\$1.9 million, respectively.

Safe keeping of machinery

Our machinery is generally stored at the construction sites of our ongoing projects from time to time unless the relevant machinery was under repair and maintenance.

Repair and maintenance

We continuously monitor the operating conditions of our owned machinery and motor vehicles, based on which we make repair and maintenance decisions on an ongoing basis. Repair and maintenance works are carried out by external mechanics engaged by us as

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needed. For each of FY2017, FY2018 and the five months ended 31 May 2019, we incurred repair and maintenance expenses for our machinery and motor vehicles of approximately HK\$0.5 million, HK\$0.3 million and HK\$0.2 million, respectively.

INSURANCE

We undertook projects mainly in the role of subcontractor during the Track Record Period. Our Directors confirmed that our slope works were covered by the employees' compensation insurance, third party liability insurance and contractor's all risks insurance taken out by the main contractor for the entire construction project. Subject to the agreements between our customers and our Group, insurance may be taken out by our customers on their own for their motor vehicles deployed for the projects at their costs or arranged by us on their behalf upon their requests at our costs. Such insurance policies covered and protected all employees of main contractors and subcontractors of all tiers working in the relevant construction site and works performed by them in the relevant construction site. In June 2018, our Group was awarded with a private sector project as a main contractor by a church in Ap Lei Chau, Hong Kong. As we acted as main contractor in such project, we had taken out the aforesaid insurance policies for the project on our own.

Our Group has also maintained employees' compensation insurance for our Directors and employees at our office. In addition, we have taken out third-party liability insurance regarding the use of our motor vehicles.

Our Directors consider that our insurance coverage is adequate and consistent with the industry norm having regard to our current operations and the prevailing industry practice. For each of FY2017, FY2018 and the five months ended 31 May 2019, our total insurance premiums incurred were approximately HK\$30,000, HK\$0.1 million and HK\$0.1 million, respectively. As requested by Customer D to facilitate its project administrative works, we have, on behalf of Customer D, arranged for the insurance policies for numerous motor vehicle deployed by Customer D in Project #03 in FY2018 at our costs, thereby resulting in an increase in our total insurance premiums incurred for FY2018.

Uninsured risks

Certain risks disclosed in the "Risk factors" section of this prospectus, such as risks in relation to our ability to obtain new contracts, our ability to retain and attract personnel, credit risk and liquidity risk, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed "Risk management and internal control systems" below in this section for further details regarding how our Group manages certain uninsured risks.

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EMPLOYEES

Number of employees

As at the Latest Practicable Date, we had a total of 160 employees (including our two executive Directors but excluding our three independent non-executive Directors). All our employees were stationed in Hong Kong. The following table sets out a breakdown of our employees by function:

	As at 31 December 2017	As at 31 December 2018	As at 31 May 2019	As at the Latest Practicable Date
General management	2	2	2	2
Project management	12	15	20	20
Finance and administration	2	2	3	3
Full-time site workers	60	67	130	135
	<u>76</u>	<u>86</u>	<u>155</u>	<u>160</u>

The following table sets forth the average monthly number of our workers who are remunerated based on the number of days they have worked for each of FY2017, FY2018 and the five months ended 31 May 2019:

	FY2017	FY2018	Five months ended 31 May 2019
Average monthly number of workers ^(Note)	72	77	95

Note: The monthly number of workers is determined by dividing the total actual man-day of our workers over the number of working days in the month. The average monthly number of workers is determined by dividing the aggregate monthly number of workers by the number of months in the year/period.

As at the Latest Practicable Date, the estimated revenue to be recognised from our projects on hand after the Track Record Period amounted to approximately HK\$264.6 million, which is higher than the backlog value of our projects on hand as at 31 December 2017 (i.e. approximately HK\$168.7 million) and 31 December 2018 (i.e. approximately HK\$155.5 million), respectively. Among the backlog value of approximately HK\$264.6 million for our projects on hand as at the Latest Practicable Date, approximately HK\$107.8 million is expected to be recognised as revenue in the seven months ending 31 December 2019. Having considered (i) the backlog value of our projects on hand to be recognised as revenue in the seven months ending 31 December 2019 (i.e. approximately HK\$107.8 million), (ii) the revenue recognised in the five months ended 31 May 2019 (i.e. approximately HK\$75.3 million), (iii) the revenue to be recognised in the seven months ending 31 December 2019 of one completed project (i.e. approximately HK\$0.9 million), and (iv) without taking into account any additional projects to be obtained by us in the

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remaining period of FY2019, we expect to generate revenue of approximately \$184.0 million in FY2019, which is significantly higher than our total revenue for each of FY2017 (i.e. approximately HK\$94.3 million) and FY2018 (i.e. approximately HK\$111.2 million). Driven by the increasing needs for manpower associated with the continuous growth in our business, our Group has further expanded our workforce to a total of 160 employees as at the Latest Practicable Date.

Training and recruitment policies

We generally recruit our employees from the open market. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and determines whether additional personnel is required to cope with our business development from time to time.

We provide various types of training to our employees and sponsor our employees to attend various training courses covering areas such as technical knowledge relating to the carrying out of slope works, safety, first aids, and environmental matters. Such training courses include our internal trainings as well as courses organised by external parties such as the Construction Industry Council, the Occupational Safety and Health Council, and other training providers. Employees carrying out construction works at construction sites are generally required to be registered pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong), which imposes certain training requirements on workers prior to registration, details of which are set out in the section headed “Regulatory overview – Labour, health and safety – Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong)” in this prospectus.

Staff costs and remuneration policy

In general, our Group determines employees’ salaries based on their qualifications, position and seniority. In order to attract and retain valuable employees, our Group reviews the performance of our employees annually which will be taken into account in annual salary review and promotion appraisal.

Our Group incurred staff costs (including directors’ emoluments, and salaries, wages and other benefits) of approximately HK\$29.3 million, HK\$34.3 million and HK\$19.5 million for FY2017, FY2018 and the five months ended 31 May 2019, respectively.

Employee relationship

Our Directors believe that we have maintained a good relationship with our employees. We have not experienced any significant problems with our employees or any disruption to our operations due to labour disputes nor have we experienced any material difficulties in the recruitment and retention of experienced core staff or skilled personnel during the Track Record Period. There has not been any trade union set up for our employees.

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LICENCES AND REGISTRATIONS

Our Group holds a number of licences and registrations which enable us to carry on our business. The following table sets out the details of the licences and registrations of A-City Workshop as at the Latest Practicable Date:

Relevant authority/ organisation	Registration and qualification	Category	Date of expiry
Buildings Department	Registered General Building Contractor	General building works	27 April 2020
Buildings Department	Registered Specialist Contractor	Site formation works	19 May 2020
Construction Industry Council	Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme)	Reinforcement bar fixing, concreting formwork, concreting, earthwork and geotechnical works	6 February 2024

Our Directors are of the view that our aforesaid licences and registrations are adequate for our business needs. Our Directors confirm that our Group has obtained all necessary licences, permits and registrations which are required to carry on our principal business activities in Hong Kong as at the Latest Practicable Date. As advised by the Legal Counsel, there is no material legal impediment in the renewal of the above licences and registrations by our Group as at the Latest Practicable Date.

We intend to apply for registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” (“**Approved Specialist Contractor**”) after the Listing. One of the prerequisites for applying to be an Approved Specialist Contractor is for us to maintain our registration with Buildings Department as a Registered Specialist Contractor under the sub-register of “site formation works” category.

In order to maintain the aforesaid registration with the Buildings Department, A-City Workshop, our principal operating subsidiary, must have at least one Authorised Signatory to act for it for the purposes of the Buildings Ordinance and one Technical Director to carry out certain duties, details of which are set out in the section headed “Regulatory Overview – Contractor licensing regime and operation – Contractor licensing regime” in this prospectus.

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As at the Latest Practicable Date, both the roles of Authorised Signatory and Technical Director for our registration as Registered Specialist Contractor under the category of site formation works were taken up by Mr. Ho. In this connection, we have the following succession and contingency plan in place:

The role of Authorised Signatory

- (i) As at the Latest Practicable Date, Mr. Sieh and Mr. Lau Chiu Ming (“**Mr. Lau**”) who is our project manager, possessed the relevant qualifications and experience in meeting the requirements imposed by the Building Authority for the position of the Authorised Signatory for our qualification as Registered Specialist Contractor under the category of site formation works.
- (ii) As advised by the Legal Counsel, the Practice Note for Registered Contractors No. 38 issued by the Buildings Department provides for fast-track process for the addition of Authorised Signatory under special circumstances such as sudden illness, accident, death, or resignation without adequate prior notice of the only Authorised Signatory of a contractor. Subject to the fulfillment of certain conditions including those in relation to the documentary proof of the special circumstances and the qualifications and records of the proposed new Authorised Signatory, the Building Authority will normally issue the letter of the result of the application within seven working days from the date of receipt of the application under fast-track processing.
- (iii) Our Group has readily available candidates for the position of Authorised Signatory in the event of departure of Mr. Ho from our Group. Mr. Sieh and Mr. Lau possess the relevant qualifications and experience for being an Authorised Signatory. Therefore, the Legal Counsel is of the view that, in the event of unforeseen departure of Mr. Ho from our Group under the special circumstances specified in the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, we are entitled to proceed with the above fast-track process for the addition of Mr. Sieh and/or Mr. Lau as an Authorised Signatory of our registration as Registered Specialist Contractor under the category of site formation works.
- (iv) Further, as advised by the Legal Counsel, the Practice Note for Registered Contractors No. 59 issued by the Buildings Department provides that in case of temporary absence of the Authorised Signatory, the Buildings Department allows a contractor to nominate another person (who can be an Authorised Signatory acting for another contractor) to act for it temporarily subject to a temporary acting period of up to 14 days normally (or up to 30 days when extensions are applied for with evidence of special circumstances, such as illness). Therefore, in case there is a temporary absence of Authorised Signatory due to the departure of our existing personnel, we can nominate a qualified personnel to fill up the position.

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The role of Technical Director

- (i) Pursuant to the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, if there is no Technical Director acting for a contractor, the contractor is required to suspend all works only if an acceptable replacement is not appointed within a reasonable period of time (though the exact period of time is not specified). For the processing of application for approval as Technical Director, the Practice Note for Registered Contractors No. 38 does not specify the period of time it normally takes, but to the best of our Directors' knowledge, the normal processing time for such application is approximately one month, subject to specific circumstances pertaining to each application.
- (ii) Our Group has readily available candidates for the position of Technical Director in the event of departure of Mr. Ho from our Group. Mr. Sieh and Mr. Lau possess the relevant qualifications and experience for being a Technical Director. Based on the advice of the Legal Counsel, provided that our Group files the application for a qualified individual as replacement as soon as practicable after the departure of our existing Technical Director, the risk of A-City Workshop being required to suspend its works as discussed in paragraph (i) above is remote.

In view of (i) the time frame and process provided by the Buildings Department for appointing replacement for the positions of Authorised Signatory and Technical Director, and (ii) our readily available candidates as replacement, our Directors consider that the risk of disruption to our operation in the event of unforeseen departure of Mr. Ho is remote.

ENVIRONMENTAL COMPLIANCE

Our Group's operations are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to waste disposal, air pollution control and noise control during the Track Record Period. For details of the regulatory requirements, please refer to the section headed "Regulatory overview – Environmental protection" in this prospectus.

We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we have established an environmental management system in conformance with ISO 14001:2015 international standard. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors.

Some of our owned machinery (mainly including air compressors) as at the Latest Practicable Date are subject to the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong). For details, please refer to the paragraph headed "Regulatory overview – Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)" in this prospectus.

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For each of FY2017, FY2018 and the five months ended 31 May 2019, we incurred approximately HK\$0.4 million, HK\$0.3 million and HK\$0.3 million, respectively, directly in relation to the compliance with applicable environmental requirements. Such amounts mainly included costs in relation to wastes disposal. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation and affected by our agreements with customers and subcontractors as to the party responsible for bearing the relevant costs from project to project.

During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements that resulted in prosecution, conviction or penalty being brought against us.

OCCUPATIONAL HEALTH AND WORK SAFETY

Our Group places emphasis on occupational health and work safety. In 2018, we have established an occupational health and safety management system which is certified to be in compliance with OHSAS 18001:2007 standard in order to provide our employees with a safe and healthy working environment.

Our project management team is responsible for overseeing the implementation of our occupational health and safety policies and to ensure that we comply with applicable occupational health and safety standards. Our Group has put in place an internal safety manual which is reviewed from time to time to incorporate the best practices and to address and improve specific areas of our safety management system. We require our employees and our subcontractors' employees to follow our workplace safety rules as set out in the safety manual. Our workplace and safety rules identify common safety and health hazards and recommendations on prevention of workplace accidents. We also provide suitable personal protective equipment such as safety helmet and safety boots to our employees based on the type of works undertaken by them.

Our safety officers/supervisors regularly provide guidance to our workers and subcontractors on correct and safe working practices. Subcontractors which failed to rectify their breaches upon our requests will be removed from our internal approved list of subcontractors. We also hold regular meetings with our subcontractors to discuss on the implementation of safety measures and follow up with any safety issues identified during the course of project implementation.

Handling and recording of workplace accidents

Our Group has a proper system in place for handling and recording work accidents during the Track Record Period and up to the Latest Practicable Date. Set out below is our general procedures for handling and recording work accidents:

- Upon occurrence of an accident, we require the injured worker or person who witnessed the accident to report to our safety officer/supervisor about the details of the accident on a timely basis, including the venue, time, cause of injury, etc.

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- Our safety officer/supervisor will prepare a notice of accident and send the notice of accident to the project manager/site agent and our administrative staff detailing the venue, date and time of the accident, name of the injured, details of the accident and injury and follow up action performed by the safety officer/supervisor after the occurrence of the accident. Our administrative staff maintains a master file for recording all details of injury cases.
- Our administrative staff will report the work injury case on time to our main contractor (if applicable), the Labour Department and the insurance company in accordance with the relevant requirements.

Workplace accidents during the Track Record Period

During the Track Record Period and up to the Latest Practicable Date, there were four accidents involving our employee and/or our subcontractor's employee which gave rise or may give rise to potential employees' compensation claims and/or personal injury claims. The following table sets out the nature of the aforesaid accidents occurred during the Track Record Period and up to the Latest Practicable Date:

No.	Date of accident	Details of the accident
1	7 July 2017	An employee of our Group slipped and suffered injury to his right wrist during work hours, resulting in pain, weakness and stiffness.
2	14 November 2018	An employee of our subcontractor suffered right chest wall injury and rib fracture in a car accident when crossing road during work hours.
3	30 January 2019	An employee of our Group suffered injury to his left leg during work hours.
4	11 April 2019	An employee of our Group suffered injury to his left hand finger during work hours.

Note: On 2 August 2017, an employee of our Group suffered from heart attack during a break from work and was certified dead. According to a letter dated 4 December 2017 issued by the Labour Department, the Commissioner of the Labour Department considered the deceased had likely died from natural causes. As such, based on the advice of the Legal Counsel, we do not classify this incident as a workplace accident under the Employees' Compensation Ordinance or the common law, and hence such incident is excluded from the calculation of our accident rates and lost time frequency rate in the paragraphs below. For further details, please refer to the paragraph headed "Litigations and claims – Potential litigation in relation to our former employee who suffered heart attack during a break from work" below in this section.

For further details of the employees' compensation claims under the Employees' Compensation Ordinance and personal injuries claims under common law, please refer to the paragraph headed "Litigations and claims" below in this section. Save as disclosed above, our Group did not experience any significant incidents or accidents in relation to workers' safety during the Track Record Period and up to the Latest Practicable Date.

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We have adopted the following safety measures to prevent the occurrence of similar accidents:

Nature of accident	Safety control measures implemented
Personal injury in connection with worker slipping, tripping or falling on same level	Workers deployed either by us or by our subcontractors are required to strictly follow our internal safety guidelines to put all objects and materials orderly in specified location to ensure the tidiness of the work site. Besides, the workers are also required to wear proper safety footwear and reminded of slippery floor by proper signs placed on site.
Personal injury in connection with worker being struck by moving vehicle	Our internal safety guidelines specify that our workers deployed either by us or by our subcontractors are reminded to be aware of the traffic condition and required to wear high visibility jackets when working beside live traffic.
Personal injury in connection with worker being injured while lifting or carrying heavy objects	Workers deployed either by us or by our subcontractors are required to strictly follow our internal safety guidelines while lifting and carrying heavy objects and are required to make use of all necessary equipment to complete their works.

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Analysis of accident rates

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

	Industry average in Hong Kong ^(Note 1)	Our Group ^(Note 2)
From 1 January to 31 December 2017		
Accident rate per 1,000 workers	32.9	11.3 ^(Note 4)
Fatality rate per 1,000 workers	0.185	Nil
From 1 January to 31 December 2018		
Accident rate per 1,000 workers	31.7	10.5 ^(Note 4)
Fatality rate per 1,000 workers	0.125	Nil
From 1 January 2019 to 31 May 2019		
Accident rate per 1,000 workers	N/A ^(Note 3)	6.5 ^(Note 4)
Fatality rate per 1,000 workers	N/A ^(Note 3)	Nil

Notes:

1. The statistics are extracted from the Occupational Safety and Health Statistics Bulletin Issue No.19 (August 2019) published by Occupational Safety and Health Branch of the Labour Department.
2. Our Group's accident rate is calculated as the number of industrial accidents during the year/period divided by the daily average of the construction site workers in our Group's projects during the year/period.
3. The relevant data has not been published as at the Latest Practicable Date.
4. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

The following table sets forth our Group's lost time injuries frequency rate ("LTIFR") during the Track Record Period:

	LTIFR ^(Notes)
For the year ended 31 December 2017	4.3
For the year ended 31 December 2018	3.9
For the five months ended 31 May 2019	6.0

Notes:

1. LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by multiplying the number of lost time injuries of our Group that occurred during the relevant year/period by 1,000,000 divided by the number of hours worked by site workers over the same year/period. It is assumed that the working hour of each worker is 9 hours per day.

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2. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

RESEARCH AND DEVELOPMENT

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

PROPERTY

Leased property

As at the Latest Practicable Date, we did not own any property and we leased the following property in Hong Kong for our operations, details of which are set out as follows:

Address	Landlord	Gross floor area	Usage	Key terms of tenancy
Rm 02-03, 23/F, Omega Plaza, 32-34A Dundas Street, Kowloon, Hong Kong	Independent third party	1,748 sq.ft.	For general office use	Monthly rental of HK\$41,952 with tenancy period from 7 September 2018 to 6 September 2020

As at 31 May 2019, our Group had no single property with a carrying amount of 15% or more of our Group's total assets. On this basis, our Group is not required by Rule 8.01A of the GEM Listing Rules to include any valuation report in this prospectus. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in respect of the requirements for a valuation report with respect to interests in land or buildings.

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, our Group is the registered owner of a domain name and had registered a trademark in Hong Kong. For further information, please refer to the section headed "Statutory and general information – B. Further information about the business of our Group – 2. Intellectual property rights" in Appendix IV to this prospectus.

As at the Latest Practicable Date, we were not aware of any material infringements (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. As at the Latest Practicable Date, we were

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also not aware of any pending or threatened claims against us or against any members of our Group in relation to any material infringement of intellectual property rights of third parties.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, we were involved in four accidents involving our employee and/or our subcontractor's employee which gave rise or may give rise to potential employee's compensation claims and/or personal injury claims that were arisen during our usual and ordinary course of business, all of which were fully covered by insurance. Given that (i) the respective accidents occurred during the respective insured period, (ii) the relevant injured employees were engaged in the respective insured contracts at the material times, and were covered as insured as one of the employees engaged in the insured contract and not being carved out as nominated and/or specialist contractors' employees and/or their subcontractor's employees, and that (iii) there is nothing suggesting the contrary to the best knowledge of our Directors, our Directors take the view that the amount of such claims and/or potential claims shall be covered by the relevant insurance policy maintained by the relevant main contractors. Our Directors confirm that as at the Latest Practicable Date, save as disclosed under this paragraph headed "Litigations and claims" in this section, no member of our Group was engaged in any litigation or claim of material importance, and no litigation or claim of material importance was known to our Directors to be pending or threatened against any member of our Group.

Ongoing claim in relation to workplace injury

As at the Latest Practicable Date, A-City Workshop was involved in the following ongoing claim in relation to workplace injury:

No.	Nature of the claim	Particulars of the claim	Claimed amount HK\$
1.	Common law personal injury claim	<p>On 7 July 2017, an employee of our Group slipped and suffered injury to his right wrist during work hours, resulting in pain, weakness and stiffness.</p> <p>On 5 September 2019, the plaintiff has filed a writ of summons to the District Court and a checklist review hearing is scheduled on 3 March 2020.</p>	2,739,160

As advised by the Legal Counsel, the aforesaid claim was covered by insurance policy taken out by the relevant main contractor. As such, our executive Directors consider that the aforesaid claim will not lead to any material adverse impact on our operation and financial performance.

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Settled claim in relation to workplace injury

During the Track Record Period and up to the Latest Practicable Date, A-City Workshop had settled the following claim in relation to workplace injury, which was covered by insurance policy taken out by the relevant main contractor:

No.	Nature of the claim	Particulars of the claim	Settlement amount <i>HK\$</i>
1.	Employees' compensation claim	On 7 July 2017, an employee of our Group slipped and suffered injury to his right wrist during work hours, resulting in pain, weakness and stiffness.	215,000

Potential litigations in relation to employees' compensation claims and common law personal injury claims

Personal injuries suffered by our employees or by our subcontractors' employees as a result of accidents arising out of and in the course of their employment may lead to employees' compensation claims and common law personal injury claims brought by the injured worker against us:

- **Employees' compensation claims:** For information regarding the relevant laws in relation to employees' compensation claims, please refer to the section headed "Regulatory overview – Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)" in this prospectus.
- **Common law personal injury claims.** An injured employee may also pursue common law personal injury claim (in addition to employees' compensation claim) if he/she alleges that the injury is caused by the employer's negligence, breach of statutory duty, or other wrongful act or omission. Any damages awarded under common law personal injury claims are normally reduced by the value of the compensation paid or payable under the Employees' Compensation Ordinance. Under the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the time limit for an applicant to commence common law personal injury claim is three years from the date on which the cause of action accrued.

Potential claims refer to those claims that have not commenced against our Group but are within the limitation period of two years (for employees' compensation claims) or three years (for common law personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong).

As at the Latest Practicable Date, there were three workplace accidents resulting in injury to our employees and/or subcontractor's employee which may give rise to potential litigations in relation to employees' compensation and/or common law personal injury claims

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against our Group. For further details, please refer to the paragraph headed “Occupational health and work safety – Workplace accidents during the Track Record Period” above in this section.

The following table sets out a summary of the expiry of limitation period of the aforesaid workplace accidents:

Year	Number of employees’ compensation claims which limitation period will expire	Number of common law personal injury claims which limitation period will expire
From the Latest Practicable Date to 31 December		
2019	–	–
2020	1	–
2021	2	1
2022	–	2

Since no court proceedings have commenced, the Legal Counsel is of the view that the likely quantum of such potential claims cannot be assessed at this moment. Our Directors take the view that the amount of such potential claims to be borne by our Group in the proceedings shall be covered by relevant insurance policy maintained by the relevant main contractor because such insurance policy covered and protected all employees of the main contractor and subcontractors of all tiers working in the relevant construction sites. Our Directors confirm that these accidents which give rise to such potential claims were caused during usual and ordinary course of our business, and have not caused disruption to our Group’s business. As advised by the Legal Counsel, in view of the nature of injury suffered by the relevant employees, such accidents do not have any adverse impact on our Group to obtain and renew any licences or permits for our operation.

Potential litigation in relation to our former employee who suffered heart attack during a break from work

On 2 August 2017, an employee of our Group suffered from heart attack while he was taking a break from work and was certified dead. According to a letter dated 4 December 2017 issued by the Labour Department, the Commissioner of the Labour Department considered that the deceased had likely died from natural causes. On 4 January 2019, a solicitor firm instructed by the widow of the deceased (the “**Claimant**”) alleged that the heart disease suffered by the deceased was caused or contributed by stress of work. As at the Latest Practicable Date, no court proceedings have been initiated by the Claimant against any member of our Group.

Based on information available from the Labour Department, the Legal Counsel is of the view that the above incident shall not be classified as a workplace accident under the Employees’ Compensation Ordinance or the common law. In the event that the Claimant subsequently initiates court proceedings and the court decides that such incident shall constitute a workplace accident under the Employees’ Compensation Ordinance or the common law, the Legal Counsel advises that the amount of such claim to be borne by our

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Group in the proceedings shall be covered by the insurance policy maintained by the relevant main contractor (i.e. with a maximum limit of liability of up to HK\$200 million per event). Further, based on the findings by the Commissioner of the Labour Department, the Legal Counsel advises that such incident does not have any adverse impact on our Group to obtain and renew any licences or permits for operation.

No provision for litigation claims

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

Regarding the potential claims, no provision was made in the financial statements of our Group having considered (i) the uncertainties as to whether such claims will be commenced; (ii) the coverage of insurance policy; (iii) the uncertainties in the total amount that will be involved for such claims, if any; and (iv) the indemnity given by our Controlling Shareholders as mentioned below.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into a 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 and penalties which may arise as a result of any outstanding and potential litigations (including criminal litigations), claims of our Group on or before the date on which the Share Offer becomes unconditional. Further details of the Deed of Indemnity are set out in the section headed "Statutory and general information – E. Other information – 1. Tax and other indemnity" in Appendix IV to this prospectus.

NON-COMPLIANCE

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any non-compliance that is material or systemic in nature.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

In preparation for the Listing, in December 2018, we engaged CT Partners Consultants Limited ("CT Partners"), an independent internal control adviser, to perform a review on the adequacy and effectiveness of our Group's internal control system for the period between 1 January 2017 to 31 December 2018 (the "Review Period"). The scope of the internal control review covered the following areas:

- (a) overall management control;

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- (b) role and responsibilities of officers, board of directors, finance executives, audit committee, remuneration committee, nomination committee and risk committee (if appropriate) in corporate governance;
- (c) financial budget and forecasts;
- (d) treasury functions;
- (e) financial reporting and disclosure procedures;
- (f) management accounting information system;
- (g) operational and/or financial controls over (i) sales, receivables, cash collection cycle, (ii) purchases, payables and payment, (iii) general ledger cycle, (iv) tender procedures, (v) property, plant & equipment, (vi) information technology, (vii) taxes and customs, (viii) insurances, (ix) safety (our Group and sub-contractors); (x) quality control; (xi) construction projects control/project management; and (xii) subcontracting;
- (h) license and compliance of laws and regulations;
- (i) risk assessments;
- (j) information and communication; and
- (k) human resource and compensation.

Upon completion of the internal control review by CT Partners, CT Partners noted a number of findings that required improvement measures. During the internal control review, none of these findings are classified by CT Partners as material internal control deficiencies. Set out below are some of the findings and the corresponding internal control improvement measures based on the recommendations of CT Partners:

Areas of findings	Particulars of the findings	Improvement Measures
Human resource and compensation	There was a lack of a written human resources policy or a staff handbook for communication, such as the expected standard of conduct, ethical values and employees' benefits, with employees.	To rectify, our Group followed CT Partners' recommendation to adopt a formal staff handbook.
Corporate governance	There was no internal audit function to evaluate, monitor or improve the internal control systems objectively and independently.	To rectify, our Group adopted a policy for setting up an internal audit function or engage an external consultant to review the internal controls of our Group at least annually.

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Areas of findings	Particulars of the findings	Improvement Measures
Operational and financial controls over receivables and cash collection	No material bad debt nor debt collection issues were noted for our Group during the Review Period. However, a written debt collection and credit impairment assessment policy was unavailable.	To rectify, our Group adopted a written debt collection and credit impairment assessment policy as recommended.
Operational and financial controls over payables and settlement	No long overdue payables nor payables settlement issues were noted for our Group during the Review Period. However, a written payable monitoring and settlement policy was unavailable.	To rectify, our Group adopted a written payable monitoring and settlement policy as recommended.
Purchase and subcontracting	In the subcontracting process, when variation works arise, no further formal written agreements will be signed with the relevant subcontractors to confirm on the additional scope of work and agreed price.	To rectify, our Group adopted a threshold policy which requires the subcontractors to sign further formal written agreements with us when the variation works exceed certain amount.
Purchase and subcontracting	When goods are delivered to construction sites, foremen or site agents would inspect the quality and quantity of the goods and sign on the delivery note. It was noted not all the signed delivery notes were returned to the head office for payment processing in a timely manner.	To rectify, our Group adopted proper record-keeping procedures as recommended. All delivery notes should be signed and returned to head office for record in a timely manner.

Based on the recommendations of CT Partners, our Group has fully implemented the above improvement measures. CT Partners also performed follow-up review in March 2019 on the implementation status of the recommended improvement measures. Based on the follow-up review, CT Partners concluded that our Group had properly implemented the recommended improvement measures.

Based on the foregoing and having considered in particular (i) the internal control measures implemented by our Group; (ii) the nature of the findings identified by CT Partners during its internal control review, which, in the opinion of CT Partners, is not material in terms of the combined effect of seriousness and likelihood and therefore does not reflect negatively on the adequacy and effectiveness of our Group's internal control system in any material respect; (iii) the recommendations provided by CT Partners in relation to the

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improvement measures, which did not involve any material or fundamental changes to our Group's pre-existing internal control and risk management systems, our executive Directors, as concurred by CT Partners, are of the view that our internal control systems are adequate and effective.

Key risks relating to our business are set out in the section headed "Risk factors" in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control system for managing the more particular operational and financial risks relating to our business operation:

(i) Customer concentration risk

Please refer to the paragraph headed "Our customers – Customer concentration" above in this section.

(ii) Risk of cost overruns

We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs we incur would not exceed our estimation during the course of project implementation. For details of our measures on minimising the risk of cost overruns, please refer to the paragraph headed "Pricing strategy" above in this section.

(iii) Risk relating to subcontractors' performance

Please refer to the paragraphs headed "Our suppliers – Basis of selecting suppliers – Selection of subcontractors" and "Our suppliers – Control over subcontractors" above in this section.

(iv) Credit risk management

We are subject to risks in relation to the collectability of our trade and other receivables, details of which are summarised in the section headed "Risk factors – We are subject to credit risk in relation to the collectability of our trade receivables and retention money".

For the purpose of mitigating our exposure to credit risk, our finance and administration staff are responsible for conducting individual credit evaluations on our customers on a regular basis. Prior to accepting work orders from new customers, our finance and accounting staff would check on the background of the potential customer in order to access their credibility.

Material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions having regard to our business relationship with the customer, its history of making payments, its financial position as well as the general economic environment. During the Track Record Period, our follow-up actions for recovering long-overdue payment included active communications and conducting follow up calls with the customers.

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We generally grant our customers a credit term of 30 to 60 days from the invoice date. As at 31 December 2017, 2018 and 31 May 2019, we recorded trade receivables of approximately HK\$2.7 million, HK\$4.0 million and HK\$3.9 million respectively, of which nil, HK\$119,000 and nil respectively have been past due but not impaired.

To ensure timely identification of doubtful or irrecoverable debts, our finance and administration staff would report to our financial controller on the collection status and ageing analysis of outstanding payments on a regular basis. Trade receivables overdue will be reviewed by our financial controller and, if appropriate, provisions for impairment of trade receivables will be made accordingly.

(v) **Liquidity risk management**

There are often time lags between making payment to our suppliers (including subcontractors) and receiving payment from our customers when undertaking contractual works, resulting in possible cash flow mismatch. Further, our customer may require us to take out performance guarantee, thereby locking up a portion of our capital for a prolonged period of time.

In order to manage our liquidity position in view of the aforementioned working capital requirement and the possible cash flow mismatch associated with undertaking contractual works, we have adopted the following measures:

- our financial controller is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements;
- as a general policy, we only procure materials on an as-needed basis according to the requirement and schedule of the project to prevent excessive purchases; and
- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and aging analysis, and following up closely to ensure prompt receipt of amounts due from our customers; and (iii) performing monthly review of our trade payables and aging analysis to ensure that payments to our suppliers are made on a timely basis.

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(vi) Purchase of materials

When selecting suppliers, our executive Directors would consider the reputation, quality of products delivered, prevailing marketing price and delivery timeliness of the supplier. Purchases must be ordered from suppliers that were approved by the executive Directors. Our executive Directors usually seek quotations from two to three suppliers of materials for comparison. The site agent is responsible to assess the quantity of materials on site, plan the delivery schedule for ordered goods, and make purchase request accordingly for approval by our executive Directors.

Suppliers would deliver materials to the instructed sites as specified by us. When the goods arrives, our foreman or site agent would inspect the quality and quantity of the goods. If no issues were found upon quantity and quality inspection, our foreman or site agent will acknowledge receipt on the delivery note and pass the delivery note to our head office for payment processing. If any quantity or quality issues arise, our foreman or site agent will request replacement delivery from the relevant suppliers. Payments to our suppliers would only be approved by our executive Directors after all quantity or quality issues are resolved.

(vii) Fixed assets

Our fixed assets mainly include furniture, motor vehicles and construction machinery. Acquisition request for fixed assets would be initiated by project managers. Any acquisition of fixed assets is approved by our executive Directors. Our executive Directors would perform physical checking on the conditions of relevant fixed assets before the acquisitions. Purchase order would be placed by our executive Directors. Upon delivery, our executive Directors will inspect the conditions of the fixed assets and, if appropriate, approve the invoices issued by the vendors and pass them to our finance and administration department for settlement and update the fixed asset register.

Our finance and administration department is responsible for maintaining documentary records for our motor vehicles, including vehicle registration documents issued by the Government as well as third-party liability insurance policies. Appropriate filings and applications are made by our finance and administration department when the registrations and/or insurance policies of our motor vehicles are due for renewal.

(viii) Regulatory risk management

We keep ourselves abreast of any changes in government policies, regulations, and licensing requirements in relation to our business operations, as well as relevant environmental, safety requirements. We will ensure that any changes of the above are closely monitored and communicated to our management and supervisory team members for proper implementation and compliance.

(ix) Occupational health and work safety

Please refer to the paragraph headed “Occupational health and work safety” in this section.

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(x) Quality control system

Please refer to the paragraph headed “Quality control” in this section.

(xi) Environmental management system

Please refer to the paragraph headed “Environmental compliance” above in this section.

(xii) Corporate governance measures

Our Company will comply with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. We have established three board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the section headed “Directors and senior management – Board committees” in this prospectus. In particular, one of the primary duties of our Audit Committee is to review our financial controls, internal control and risk management systems. Our Audit Committee consists of three independent non-executive Directors, whose backgrounds and profiles are set out in the section headed “Directors and senior management” in this prospectus.

In addition, to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the section headed “Relationship with Controlling Shareholders – Corporate governance measures” in this prospectus.

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of two executive Directors and three independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

Name	Age	Date of joining our Group	Present position	Date of appointment as Director	Key role and responsibility
Mr. Sieh Shing Kee (謝城基先生)	52	22 December 2016	Chairman of our Board and executive Director	30 January 2019	Overall management, strategic planning and the day-to-day business operation of our Group
Mr. Ho Ka Ki (何家淇先生)	45	24 September 2016 <i>(Note)</i>	Executive Director and chief executive officer	30 January 2019	Overall management, strategic planning and the day-to-day business operation of our Group
Mr. Tso Ping Cheong Brian (曹炳昌先生)	39	25 November 2019	Independent non-executive Director	25 November 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct
Mr. Kwong Che Sing (鄺志成先生)	58	25 November 2019	Independent non-executive Director	25 November 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct
Mr. Ling Siu Tsang (凌肇曾先生)	64	25 November 2019	Independent non-executive Director	25 November 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct

Note: Mr. Ho Ka Ki co-founded A-City Workshop in August 2012 and re-joined our Group as the director of A-City Workshop on 24 September 2016.

Executive Directors

Mr. Sieh Shing Kee (謝城基先生), aged 52, was appointed as our Director in January 2019 and was designated as our executive Director in February 2019 and appointed as the chairman of our Board in March 2019. Mr. Sieh joined A-City Workshop as a director and shareholder in December 2016. Mr. Sieh is also one of our Controlling Shareholders and a director of Kanic International. Mr. Sieh is primarily responsible for the overall management, strategic planning and the day-to-day business operation of our Group.

Mr. Sieh obtained a bachelor's degree of science in engineering from the University of Hong Kong in November 1991. Mr. Sieh was registered as a Registered Professional Engineer under the Engineers Registration Board and was admitted as a member of the Institution of Structural Engineers in October 2000 and a member of the Hong Kong Institution of Engineers in March 2001.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Sieh worked for China Civil Engineering Construction Corporation, an international company based in the PRC engaging in international contracting for railway construction and civil engineering design and consultancy, real estate development, trading, industrial investment and hotel management, from December 2000 to February 2001 as structural engineer. From March 2001 to March 2004, Mr. Sieh worked for Carrier Construction Limited, a construction company based in Hong Kong specializing in geotechnical works and an approved specialist contractor, as site agent. From March 2007 to April 2013, Mr. Sieh worked for Shing Chun Engineering Limited, being a local construction company, as director. From June 2011 to August 2016, Mr. Sieh worked for Tai Kam Construction Engineering Company Limited, the main operating subsidiary of Tai Kam Holdings Limited, being a slope works construction company in Hong Kong and an approved specialist contractor and listed on the GEM of The Stock Exchange (stock code: 8321), as a site agent.

Mr. Sieh was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name	Principal business activities	Date of dissolution	Means of dissolution	Reasons for dissolution
FingerStones Engineering Limited	Construction engineering services	17 May 2019	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its application of dissolution
Shing Chun Engineering Limited	Construction	26 April 2013	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

Mr. Sieh has confirmed that each of the above companies was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Mr. Sieh has not been a director of any listed company in the last three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Ka Ki (何家淇先生), aged 45, was appointed as our Director in January 2019 and was designated as our executive Director in February 2019 and appointed as our chief executive officer in March 2019. Mr. Ho co-founded A-City Workshop in August 2012, re-joined A-City Workshop as the director in September 2016 and became one of the shareholders of A-City Workshop in December 2016. Mr. Ho is also one of our Controlling Shareholders and a director of Kanic International. Mr. Ho is primarily responsible for the overall management, strategic planning and the day-to-day business operation of our Group.

Mr. Ho obtained a bachelor's degree of engineering in civil and structural engineering from the Hong Kong University of Science and Technology in November 1996. Mr. Ho was admitted as a member of the Hong Kong Institution of Engineers in March 2002. He was registered as a Registered Professional Engineer under the Engineers Registration Board in July 2003. He also obtained a diploma in occupational health and safety through a part-time face-to-face learning programme from Li Ka Shing Institute of Professional and Continuing Education of the Open University of Hong Kong in September 2002.

Prior to joining our Group, Mr. Ho worked for Zen Pacific Civil Contractors Ltd., a local construction company, from July 1996 to October 2000 as engineer as his last position and was responsible for various civil engineering projects. Mr. Ho was employed under HK ACE Joint Venture of Hong Kong Construction (Holdings) Ltd., AMEC International Construction Ltd., China Railway Construction Corporation and China Everbright Holdings Co. Ltd. from November 2000 to August 2002 as senior engineer as his last position and was responsible for the construction of the Sui Hong station structure works of West Rail development. From September 2002 to April 2004, Mr Ho worked for Ngo Kee Construction Co., Ltd, a local company engaging in engineering construction and building construction, as engineer. From November 2011 to August 2016, Mr. Ho worked for Tai Kam Construction Engineering Company Limited, the main operating subsidiary of Tai Kam Holdings Limited, being a slope works construction company in Hong Kong and an approved specialist contractor and listed on the GEM of The Stock Exchange (stock code: 8321), as a site agent as his last position.

Mr. Ho was a director of the following companies in Hong Kong immediately prior to their respective dissolution:

Name	Principal business activities	Date of dissolution	Means of dissolution	Reasons for dissolution
FingerStones Engineering Limited	Construction engineering services	17 May 2019	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its application of dissolution
O2 Oxylife Hong Kong Limited	Trading	20 April 2012 <i>(Note)</i>	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

Note: Mr. Ho ceased to act as director of O2 Oxylife Hong Kong Limited on 31 August 2010 and transferred 35% of the shareholding of O2 Oxylife Hong Kong Limited, representing his entire interests in the company, to an existing shareholder in August 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho has confirmed that each of the above companies was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Mr. Ho has not been a director of any listed company in the last three years.

Independent non-executive Directors

Mr. Tso Ping Cheong Brian (曹炳昌先生), aged 39, was appointed as our independent non-executive Director on 25 November 2019 and is mainly responsible for providing independent judgment on our Group's strategy, performance, resources and standard of conduct.

Mr. Tso obtained a bachelor's degree of arts in accountancy from Hong Kong Polytechnic University in November 2003 and a master's degree of corporate governance from the same university in October 2013.

Mr. Tso was admitted as a member and was advanced as a fellow of Association of Chartered Certified Accountants in October 2006 and October 2011, respectively. He was also admitted as a member and was advanced as a fellow of Hong Kong Institute of Certified Public Accountants in September 2008 and October 2015 respectively. Mr. Tso was admitted as a fellow of the Institute of Chartered Secretaries and Administrators in November 2015 and an associate and subsequently a fellow of the Hong Kong Institute of Chartered Secretaries in January 2014 and November 2015, respectively.

From September 2003 to December 2008, Mr. Tso worked for Ernst & Young, being an international accounting firm, and last held the position of manager and was responsible for the assurance and advisory business services. From December 2008 to May 2010, Mr. Tso worked for Greenheart Group Limited (formerly known as Omnicorp Limited), being a company focusing on the wood harvesting, lumber-processing, marketing and sales and provision of wood products and listed on the Main Board of the Stock Exchange (stock code: 94) as financial controller and was responsible for the finance and accounting matters. From May 2010 to August 2012, Mr. Tso worked for Maxdo Project Management Company Limited, being an asset management company, as senior vice president of the investment team and was responsible for handling the merger and acquisition transactions, the investor relations and business development. Mr. Tso founded Teton CPA Company, an accounting firm, in January 2013 as the sole proprietor since then.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tso is/was an non-executive director/independent non-executive director (as the case may be) of the following listed companies of the Stock Exchange, details as follows:–

Name of the company	Listing platform	Capacity	Tenure of service
Asia-Pac Financial Investment Company Limited (formerly known as GreaterChina Professional Services Limited) (stock code: 8193)	GEM	Independent non-executive director	July 2014 – January 2018
Larry Jewelry International Limited (stock code: 8351)	GEM	Independent non-executive director	October 2014 – August 2019
Guru Online (Holdings) Limited (stock code: 8121)	GEM	Independent non-executive director	May 2014 – present
Newtree Group Holdings Limited (stock code: 1323)	Main Board	Independent non-executive director	February 2015 – present
Shenglong Splendecor International Limited (stock code: 8481)	GEM	Independent non-executive director	June 2018 – present
EFT Solutions Holdings Limited (stock code: 8062)	GEM	Independent non-executive director	September 2019 – present

Save as disclosed above, Mr. Tso has not been a director of any listed company in the last three years.

Our Directors consider and the Sponsor concurs that, notwithstanding Mr. Tso's independent non-executive director roles in other companies, Mr. Tso has been, and will continue to be, able to devote sufficient time to discharge his duties as an independent non-executive Director, on the basis that (i) notwithstanding his current engagements, he had attended substantially all board meetings, meetings of the board committees and general meetings of other listed companies in Hong Kong during the financial period reported in the latest available annual reports; (ii) as an independent non-executive Director, he does not participate in our daily operation and management, but only participates in the decision-making process of significant matters such as our operational strategies; and (iii) he has confirmed that he will devote sufficient time to perform his duties as an independent non-executive Director.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tso was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name of the company	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Singular Products Limited	Investment holding	24 December 2015	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Charisma Private Capital Partners Limited	Investment holding	11 March 2016	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Ivory Tower Investments Limited	Investment holding	2 September 2016	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Avatar Private Property Limited	Investment holding	28 October 2016	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Cerebra Its Limited	Investment holding	25 May 2018	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

Mr. Tso has confirmed that each of the above companies was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwong Che Sing (鄭志成先生), aged 58, was appointed as our independent non-executive Director on 25 November 2019 and is mainly responsible for providing independent judgment on our Group's strategy, performance, resources and standard of conduct.

Mr. Kwong obtained a certificate in land surveying from Hong Kong Polytechnic (currently known as Hong Kong Polytechnic University) in November 1985.

Mr. Kwong was elected as a professional member of the Royal Institution of Chartered Surveyors in December 2001 and an associate of the Hong Kong Institute of Surveyors in February 2002. He was registered as an authorised land surveyor under the Land Survey Ordinance (Chapter 473 of the Laws of Hong Kong) in February 2003.

Since October 1984, Mr. Kwong had worked for the Lands Department as a senior survey officer and had been responsible for surveying matters. From July 1997 to April 2002, he worked for Helicon Ma Surveying Limited, being a local surveying service provider, as a land surveyor and was responsible for, among others, the implementation of customised tools in plan production, calculation and the setup of a systematic survey mechanism. In August 1997 and November 2000, Mr. Kwong founded G&T Surveying Services Company Limited and Geoffrey Kwong Land Surveyor Limited as one of the founder members for the purpose of providing surveying service, respectively. He had also been the director of such companies since their incorporation. Mr. Kwong has also been a director of Nice Cute Limited since June 2016.

Mr. Kwong has not been a director of any listed company in the last three years.

Mr. Kwong was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name of the company	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
G&T Surveying Services Company Limited	Surveying	23 August 2002	Dissolved by striking off under section 291 of the Predecessor Companies Ordinance	Such company was no longer carrying on business or in operation prior to its dissolution
Geoffrey Kwong Land Surveyor Limited	Surveying	18 September 2015	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwong has confirmed that each of the above companies was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Mr. Ling Siu Tsang (凌肇曾先生), aged 64, was appointed as our independent non-executive Director on 25 November 2019 and is mainly responsible for providing independent judgment on our Group's strategy, performance, resources and standard of conduct.

Mr. Ling obtained a bachelor's degree of science in civil engineering from the University of Calgary in Canada in June 1978 and a master of business administration from the University of East Asia Macau in Macau in October 1986.

Mr. Ling was admitted as a member of the Hong Kong Institute of Engineers in August 2010. In July 2015, he was accredited to act in the role of a project manager for the NEC3 Engineering and Construction Contract by the Institution of Civil Engineers and the Construction Industry Council. He was registered as a Registered Professional Engineer under the Engineers Registration Board in October 2017. Since April 2018, Mr. Ling has also been appointed by Hong Kong Accreditation Service of the Innovation and Technology Commission as an assessor.

From July 1983 to May 1986, Mr. Ling worked for the Engineering Development Department, as a geotechnical engineer. From June 1986 to June 1990, he worked for the Civil Engineering Services Department, as a geotechnical engineer. From December 1995 to April 2016, he worked for the then Civil Engineering Department and the CEDD, as chief geotechnical engineer as his last position held, and was responsible for the management of consultancy agreements and other engineering matters. Since November 2017, he has been re-engaged by the Geotechnical Engineering Office of the CEDD as a contract technical manager.

Mr. Ling has not been a director of any listed company in the last three years.

Disclosures required under Rule 17.50(2) of the GEM Listing Rules

Save as disclosed in this section, each of our Directors has confirmed with respect to him that (a) he has not held any directorship in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas prior to the Latest Practicable Date; (b) he did not hold any other positions in our Group as at the Latest Practicable Date; (c) he did not have any relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; (d) he does not have any other interests in the Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed "C. Further information about our Directors and our Substantial Shareholders – 1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation" in Appendix IV to this prospectus; (e) he does not have any

DIRECTORS AND SENIOR MANAGEMENT

interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under the GEM Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was 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 needed to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT PERSONNEL

Other than our Directors, our senior management team consists of two members, who, together with our Board, are responsible for the day-to-day management of our Group. The following table sets forth certain information in respect of our senior management personnel:

Name	Age	Date of joining our Group	Present position	Date of appointment as senior management personnel	Key role and responsibility
Mr. Lam Kau Wang (林教宏先生)	39	January 2019	Financial controller	January 2019	Responsible for overall financial administration and corporate governance matters
Mr. Lau Chiu Ming (劉超明先生)	37	September 2017	Project manager	December 2018	Responsible for the project planning, supervision and administration of the construction activities of the projects

Mr. Lam Kau Wang (林教宏先生), aged 39, joined our Group as a financial controller of A-City Workshop in January 2019 and is mainly responsible for overall financial administration and corporate governance matters.

Mr. Lam obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University in November 2003. Mr. Lam was admitted as a fellow of the Association of Chartered Certified Accountants in August 2012 and a certified public accountant of the Hong Kong Institute of Certified Public Accountants in September 2010.

Prior to joining our Group, from December 2004 to August 2010, Mr. Lam worked for Deloitte Touche Tohmatsu, being an international accounting firm, as senior accountant as his last position. From August 2010 to July 2012, Mr. Lam worked for Maxdo Group Limited, a service company based in Hong Kong engaging in the business of trade finance and real estate investment agency, as vice president and was responsible for the forestry operation in Central America and liaising with related parties for the forestry investments in South America. From July 2012 to August 2016, Mr. Lam worked for Edipresse Media Asia Limited, a leading luxury media group based in Asia, as financial controller as his last position and was responsible for overall financial administration of the company. From

DIRECTORS AND SENIOR MANAGEMENT

August 2016 to December 2018, Mr. Lam worked for Victory Kind Container Service Ltd, a local company engaging in the business of depot and warehouse, as the financial controller and was responsible for finance and accounting matters. In November 2017, Mr. Lam founded Booket Digital Media Development Company Limited as one of the founder members for the purpose of providing IT services. He has also been the director of such company since August 2018.

Mr. Lam has not been a director of any listed company in the last three years.

Mr. Lau Chiu Ming (劉超明先生), aged 37, joined our Group as a site agent of A-City Workshop in September 2017 and became project manager in December 2018. Mr. Lau is mainly responsible for the project planning, supervision and administration of the construction activities of the projects.

Mr. Lau obtained a bachelor's degree of civil engineering from the University of Wales Swansea, the United Kingdom, in July 2006 and a master's degree of science in computer modelling and finite elements in engineering mechanics from the same university in March 2008.

Prior to joining our Group, Mr. Lau worked for China Harbour Engineering Co Ltd, a subsidiary of China Communications Construction Company Limited (stock code: 1800), being a transportation infrastructure group and listed on the Main Board of the Stock Exchange, from November 2009 to March 2010, as graduate engineer. From March 2010 to September 2017, Mr. Lau worked for AECOM Asia Company Limited, a subsidiary of AECOM (stock code: ACM), being an international engineering firm and listed on the New York Stock Exchange, as the assistant resident engineer (geotechnical) as his last position, and was responsible for the design and construction of the widening of Tai Po Road (Sha Tin Section) during his last position.

Mr. Lau has not been a director of any listed company in the last three years.

COMPANY SECRETARY

Mr. Lam Kau Wang (林教宏先生), our financial controller is also our company secretary. For details of his background, please refer to the paragraph headed "Senior management personnel" in this section.

COMPLIANCE OFFICER

Mr. Ho Ka Ki is the compliance officer of our Company. For details of his background, please refer to the paragraph headed "Directors" in this section.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit committee

Our Company established an audit committee on 25 November 2019 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary roles of our audit committee include, but are not limited to, (a) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of our financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them; (c) reviewing our financial controls, internal control and risk management systems. Our audit committee consists of three members, namely, Mr. Tso Ping Cheong Brian, Mr. Kwong Che Sing and Mr. Ling Siu Tsang. Mr. Tso Ping Cheong Brian is the chairman of our audit committee. Please refer to the paragraph headed “Directors” under this section for the backgrounds of the members of our audit committee.

Remuneration committee

Our Company established a remuneration committee on 25 November 2019 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary roles of our remuneration committee include, but are not limited to, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management personnel and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving our management’s remuneration proposals with reference to our Board’s corporate goals and objectives; and (c) making recommendations to our Board on the remuneration of non-executive Directors. Our remuneration committee consists of three members, namely, Mr. Ling Siu Tsang, Mr. Sieh Shing Kee and Mr. Kwong Che Sing. Mr. Ling Siu Tsang is the chairman of our remuneration committee. Please refer to the paragraph headed “Directors” under this section for the backgrounds of the members of our remuneration committee.

Nomination committee

Our Company established a nomination committee on 25 November 2019 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code has been adopted. The primary roles of our nomination committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become our Board members and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; and (c) assessing the independence of our independent non-executive Directors. Our nomination committee consists of three members, namely, Mr. Sieh Shing Kee, Mr. Ling Siu Tsang and Mr. Kwong Che Sing. Mr. Sieh Shing

DIRECTORS AND SENIOR MANAGEMENT

Kee is the chairman of our nomination committee. Please refer to the paragraph headed “Directors” under this section for the backgrounds of the members of our nomination committee.

REMUNERATION OF MANAGEMENT PERSONNEL

Our Directors and senior management personnel receive remuneration in the form of salaries, bonuses, other allowances and benefits in kind. We determine the salaries of our Directors (including our independent non-executive Directors) and senior management personnel based on their qualification, position and seniority. In addition to salaries, our Directors may receive discretionary bonuses. The aggregate amount of remuneration (including salaries, fee, allowances and retirement benefit scheme contributions) paid to our Directors for the two years ended 31 December 2018 and the five months ended 31 May 2019 amounted to approximately HK\$1,428,000, HK\$1,428,000 and HK\$596,000, respectively. Details of the remuneration paid to each of our Directors during the Track Record Period are set out in note 11(a) to the Accountants’ Report set out in Appendix I to this prospectus.

The aggregate amount of remuneration (including salaries, fee, allowances and retirement scheme contributions) paid to the five highest paid individuals (including our Directors) of our Group for the two years ended 31 December 2017 and 2018 and the five months ended 31 May 2019 amounted to approximately HK\$2,727,000, HK\$3,057,000 and HK\$1,465,000, respectively.

During the Track Record Period, no emoluments were paid by our Group to our Directors or to the above highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office as a director or management of any members of our Group. None of our Directors or the highest paid individuals waived any compensation during the Track Record Period.

Under the arrangement currently in force, the aggregate amount of remuneration (including fees, salaries and allowances and retirement scheme contributions) payable to our Directors for FY2019 is estimated to be approximately HK\$1,462,500. Our Board will review and determine the remuneration and compensation packages of our Directors and senior management upon receiving recommendation from the remuneration committee, after Listing, which will take into account, among others, salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

Our Directors (including our independent non-executive Directors) and senior management personnel are entitled to participate in the Share Option Scheme, the principal terms of which are set out under the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

Further details of the terms of the service agreements of and remuneration paid to our Directors are set out under the paragraph headed “C. Further information about our Directors and our Substantial Shareholders – 3. Particulars of service agreements and appointment letters” in Appendix IV to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

We are expected to comply with the CG Code set out in Appendix 15 to the GEM Listing Rules. Any deviation shall 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. We are committed to achieving high standards of corporate governance with a view of safeguarding the interests of our Shareholders as a whole. We will comply with the CG Code after the Listing.

Board Diversity

We have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, we seek to achieve board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our nomination committee is delegated by our Board to be responsible for compliance with relevant code governing board diversity under the CG Code. After Listing, our nomination committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the Board Diversity Policy on annual basis.

Due to the industry nature of our business as a slope works contractor and the prevailing gender dominance in the industry, our Board comprises all-male five members, including two executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including business management, business development, industry knowledge, corporate governance and compliance, finance, auditing and accounting experiences. Furthermore, the ages of our Directors range from 39 years old to 64 years old. The education background of our Directors ranges from accountancy and business administration to land surveying and engineering, from the education institutions in Hong Kong, Macau to Canada. Nevertheless, in recognising the particular importance of gender diversity, our Company confirms that our nomination committee will, within two years from the Listing Date, identify and recommend one female candidate to our Board for its consideration on her appointment as director of our Company. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to the Board and senior management levels. While we recognise that gender diversity at the Board level can be improved given its current composition of all-male Directors, we will continue to apply the principle of appointments based on merits with reference to our Board Diversity Policy as a whole.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

Our Company has appointed Grande Capital Limited to be our compliance adviser in compliance with Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules and under the agreement with our compliance adviser, we shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including Share issues and Share repurchases;
- (c) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules concerning unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares, or any other matters.

The term of the engagement will commence on the Listing Date and end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Mr. Ho and Mr. Sieh entered into a deed of acting in concert confirmation and undertaking dated 20 March 2019, whereby they have, among other things, (a) confirmed and declared that prior to the execution of the deed of acting in concert confirmation and undertaking, they had acted in concert as a group and voted as a group (by themselves and/or through companies controlled by them) in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels; and (b) undertaken that, upon execution of the deed of acting in concert confirmation and undertaking and during the period they (by themselves or together with their associates) remain in control of our Group until the deed of acting in concert confirmation and undertaking is terminated by all of them in writing, they shall continue to act in concert as a group and to vote as a group (by themselves and/or through companies controlled by them and/or their trustees) on an unanimous basis in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), Good Hill (which is wholly owned by Mr. Ho and Mr. Sieh in equal share) will be entitled to exercise or control the exercise of 75% of the voting power at general meetings of our Company, therefore, Good Hill is our Controlling Shareholder. On the basis that Mr. Ho and Mr. Sieh have decided to restrict their ability to exercise direct control over our Company by holding their interests through Good Hill, Mr. Ho and Mr. Sieh are a group of our Controlling Shareholders.

Further, since Good Hill is a company controlled by Mr. Ho and Mr. Sieh, Good Hill, Mr. Ho and Mr. Sieh are together regarded as a group of our Controlling Shareholders pursuant to the deed of acting in concert confirmation and undertaking.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) taking into account the following factors:

Financial independence

Our Group has an independent financial system and makes financial decisions according to our business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our day-to-day operations. During the Track Record Period, our Group relied principally on shareholder's equity, advances from related parties and cash generated from operations to finance our business.

During the Track Record Period, our Group had certain amounts due from/to our Controlling Shareholders. Please refer to the sections headed "Financial Information – Discussion on selected items from the consolidated statements of financial position – Amount due from/(to) Director(s)" of this prospectus and Note 17 of the Accountants' Report set out in Appendix I to this prospectus for further details. As at the Latest Practicable Date, all amounts due from our Controlling Shareholders had been fully settled. All amounts due to our Controlling Shareholders will be fully settled prior to the Listing. In

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

addition, during the Track Record Period and up to the Latest Practicable Date, we have arranged for the issuance of performance guarantee in relation to some projects (i.e. Projects F2, F3, F4 and G1 as referred to in the paragraph headed “Business – Business strategies – 4. Increasing our reserve for financing the issue of performance guarantees”) which was secured by personal guarantees of Mr. Ho and Mr. Sieh. Please refer to the paragraphs headed “Business – Our customers – Principal terms of engagement” and “Business – Business strategies — 4. Increasing our reserve for financing the issue of performance guarantees” in this prospectus for details. All such personal guarantees given by our Controlling Shareholders will be replaced by corporate guarantees given by our Company upon the Listing.

Subsequent to the Track Record Period, A-City Workshop obtained general banking facilities with a total loan amount of up to HK\$10.0 million, which was secured by (i) personal guarantees of Mr. Ho and Mr. Sieh, all of which will be replaced by the corporate guarantee of our Company upon Listing; and (ii) a bank deposit of HK\$5.0 million placed by A-City Workshop. Please refer to the section headed “III. Events After The Reporting Period” of the Accountants’ Report set out in Appendix I to this prospectus for further details.

Having considered that our future operations is not expected to be financed by our Controlling Shareholders, the amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) will be fully settled and the personal guarantees given by our Controlling Shareholders will be replaced by corporate guarantees given by our Company upon the Listing, our Directors consider that our Group is financially independent of our Controlling Shareholders.

Operational independence

Our operations are independent of and not connected with any of our Controlling Shareholders. Having considered that (i) we have established our own organisational structure comprising individual departments, each with specific areas of responsibilities; (ii) our Group has not shared our operational resources, such as customers, marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates; and (iii) our Controlling Shareholders have no interest in any of our customers, suppliers or other business partners that are important to our operations, our Directors consider that our Group can operate independently from our Controlling Shareholders.

Management independence

Our management and operational decisions are made by our Board and our senior management personnel. Our Board comprises two executive Directors and three independent non-executive Directors. Other than being our executive Director, Mr. Ho and Mr. Sieh are also directors of Good Hill, which is also our Controlling Shareholder. Save as disclosed above, none of our Directors serves any executive or managerial role in Good Hill.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the best interest of our Group and not to allow any conflict between his duties as a Director and his personal interest. Our independent non-executive Directors are all well-educated with extensive experience in various professions and they have been appointed pursuant to the requirements under the GEM Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors with different backgrounds provides a balance of views and opinions. Our

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision making power unless otherwise authorised by our Board.

In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and any of our Directors or their respective close associates (other than members of our Group), the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transaction and shall not be counted in the quorum. In case both Mr. Ho and Mr. Sieh are required to abstain from voting at the Board meeting due to potential conflict of interest, our three independent non-executive Directors will be able to form a quorum and will ensure that the decisions of our Board are made after due consideration of independent and impartial opinions.

In addition, our Group has an independent senior management team whose backgrounds are set out under the paragraph headed “Directors and Senior Management – Senior management personnel” of this prospectus, none of whom serves any executive or managerial role in Good Hill.

NO COMPETING INTERESTS

Our Directors, Controlling Shareholders and their respective close associates (other than members of our Group) do not have any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our business.

UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that except pursuant to the Share Offer and the Offer Size Adjustment Option, it will not and will procure that the relevant registered holder(s) will not: (a) in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and (b) in the period of 12 months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company. Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholder has undertaken to the Stock Exchange and to our Company that, within the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 24 months from the date on which dealings in the Shares commence on the Stock Exchange, it/he will: (i) when it/he pledges or charges any Shares beneficially owned by it in favour of an authorised institution pursuant to Rule 13.19 of the GEM Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

In addition to the undertaking pursuant to rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to our Company that (a) except pursuant to the Share Offer and the Offer Size Adjustment Option, it/ he will not and will procure that the relevant registered holder(s) will not in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 30 months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (b) it/he will not and will procure the Board of Directors not to, in the period during which our Controlling Shareholders remain as Controlling Shareholders, cause any fundamental change in the principal business of our Company and that the revenue attributable to the undertaking of construction and related works shall represent 75% or above of our total revenue of the respective year/period.

CONFIRMATION BY OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders confirms that, except pursuant to the Share Offer and the Offer Size Adjustment option and as of the date of this Prospectus, it/he has no undertaking, agreement or any understanding to such effect, whether verbal or written, in respect of the shareholding and/ or voting rights of the Company with any other parties.

CORPORATE GOVERNANCE MEASURES

Our Directors consider that we have adequate corporate governance measures in place to resolve actual and potential conflict of interest. To further avoid potential conflict of interest, we have implemented the following measures:

- (a) our Company has adopted the Articles which provide that unless otherwise provided in the Articles, a Director shall not vote (nor shall he be counted in the quorum) on any resolution of our Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution;
- (b) our Company will use our best endeavours to ensure that our Board includes a balanced composition of executive, non-executive and independent non-executive Directors. We have appointed three independent non-executive Directors whom we believe possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of their independent judgment. For details of our independent non-executive Directors, please refer to the section headed “Directors and Senior Management – Directors” in this prospectus; and
- (c) we have appointed Grande Capital Limited as our compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the GEM Listing Rules and various requirements relating to directors’ duties and corporate governance.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors and the chief executives of our Company, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), the following persons/entities will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Substantial Shareholder	Company concerned	Capacity/Nature of Interest	As at the Latest Practicable Date		Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme)	
			Class and number of securities held <i>(Note 1)</i>	Approximate percentage of interest in the company concerned	Class and number of securities held <i>(Note 1)</i>	Approximate percentage of interest in the company concerned
Good Hill	Our Company	Beneficial owner	2,001 ordinary Shares (L) <i>(Note 2)</i>	100.0%	300,000,000 ordinary Shares (L) <i>(Note 2)</i>	75.0%
Mr. Ho	Our Company	Interest in controlled corporation/Interests held jointly with another person	2,001 ordinary Shares (L) <i>(Note 3)</i>	100.0%	300,000,000 ordinary Shares (L) <i>(Note 3)</i>	75.0%
Ms. Lee Kim Kum	Our Company	Interest of spouse	2,001 ordinary Shares (L) <i>(Note 4)</i>	100.0%	300,000,000 ordinary Shares (L) <i>(Note 4)</i>	75.0%
Mr. Sieh	Our Company	Interest in controlled corporation/Interests held jointly with another person	2,001 ordinary Shares (L) <i>(Note 3)</i>	100.0%	300,000,000 ordinary Shares (L) <i>(Note 3)</i>	75.0%
Ms. Cao Hongmei	Our Company	Interest of spouse	2,001 ordinary Shares (L) <i>(Note 5)</i>	100.0%	300,000,000 ordinary Shares (L) <i>(Note 5)</i>	75.0%

Notes:

- The letter "L" denotes the entity's long position in the Shares.
- Good Hill is directly owned in equal share by each of Mr. Ho and Mr. Sieh. As such, Mr. Ho and Mr. Sieh are indirectly interested in our Company through their direct individual interest of 50 % in Good Hill. Both of Mr. Ho and Mr. Sieh are our executive Directors.

SUBSTANTIAL SHAREHOLDERS

3. These 300,000,000 Shares are held by Good Hill, which in turn is directly owned in equal share by each of Mr. Ho and Mr. Sieh. As such, Mr. Ho and Mr. Sieh are deemed under the SFO to be interested in the 300,000,000 Shares collectively held through Good Hill upon the Listing.
4. Ms. Lee Kim Kum is the spouse of Mr. Ho. As such, Ms. Lee Kim Kum is deemed under the SFO to be interested in the Shares in which Mr. Ho is interested upon the Listing.
5. Ms. Cao Hongmei is the spouse of Mr. Sieh. As such, Ms. Cao Hongmei is deemed under the SFO to be interested in the Shares in which Mr. Sieh is interested upon the Listing.

Our Substantial Shareholders, being persons and entities which are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of our Company, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), include Good Hill, Mr. Ho and Mr. Sieh. Good Hill is directly owned in equal share by each of Mr. Ho and Mr. Sieh.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

SHARE CAPITAL

The share capital of our Company immediately following the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme) will be as follows:

Authorised share capital

	<i>HK\$</i>
<u>1,000,000,000</u> Shares of HK\$0.01 each	<u>10,000,000</u>

Assuming the Offer Size Adjustment Option is not exercised, the issued share capital of our Company immediately following the Share Offer will be as follows:

Shares in issue or to be issued, full paid or credited as fully paid

		<i>HK\$</i>
2,001	Shares in issue as at the date of this prospectus	20.01
299,997,999	Shares to be issued pursuant to the Capitalisation Issue	2,999,979.99
<u>100,000,000</u>	Share to be issued pursuant to the Share Offer	<u>1,000,000</u>
<u>400,000,000</u>	Shares in total	<u>4,000,000</u>

Assuming the Offer Size Adjustment Option is exercised in full, the issued share capital of our Company immediately following the Share Offer will be as follows:

Shares in issue or to be issued, full paid or credited as fully paid

		<i>HK\$</i>
2,001	Shares in issue as at the date of this prospectus	20.01
299,997,999	Shares to be issued pursuant to the Capitalisation Issue	2,999,979.99
<u>115,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>1,150,000</u>
<u>415,000,000</u>	Shares in total	<u>4,150,000</u>

MINIMUM PUBLIC FLOAT

According to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the GEM Listing Rules).

SHARE CAPITAL

RANKING

The Offer Shares will rank *pari passu* in all respects with the Shares in issue and to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date other than participation in the Capitalisation Issue.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary Shares, each of which ranks *pari passu* with the other Shares. The circumstances under which general meetings are required are provided in the Articles. Detailed information on the Articles is set forth in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional upon the conditions stated under the paragraph headed “Structure and Conditions of the Share Offer – Conditions of the Share Offer” in this prospectus being fulfilled or waived, a general unconditional mandate has been granted to our Directors to exercise all powers of our Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which might require the Shares to be allotted and issued or dealt with subject to the requirement that the total number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (a) a rights issue; (b) any scrip dividend scheme or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Articles; (c) any specific authority granted by our Shareholders in general meeting; or (d) the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme, shall not exceed 20% of the total number of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue.

Such general mandate will remain in effect until 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 by the Articles or any applicable laws of the Cayman Islands to be held; and (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting. Please refer to the paragraph headed “A. Further information about our Group – 4. Written resolutions of our sole Shareholder” in Appendix IV to this prospectus for further details of such general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional upon the conditions stated under the paragraph headed “Structure and Conditions of the Share Offer – Conditions of the Share Offer” in this prospectus being fulfilled or waived, a general unconditional mandate has been granted to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other

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stock exchange on which the securities of our Company might be listed and which was recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as would represent up to 10% of the total number of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue, excluding any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme. For the summary of the relevant requirements of the GEM Listing Rules on such general mandate, please refer to the paragraph headed “A. Further information about our Group – 6. Repurchase of our own securities” in Appendix IV to this prospectus.

Such general mandate will remain in effect until 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 by the Articles or any applicable laws of the Cayman Islands to be held; and (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting. Please refer to the paragraph headed “A. Further information about our Group – 4. Written resolutions of our sole Shareholder” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

CAPITALISATION ISSUE

Subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors have been authorised to allot and issue a total of 299,997,999 Shares, credited as fully paid at par, to our Shareholder whose name appears on the register of members of our Company at 5:00 p.m. on 12 December 2019 (or such other time as our Directors may direct) by way of capitalisation of a sum of HK\$2,999,979.99 standing to the credit of the share premium account of our Company, and that the Shares to be allotted and issued, as nearly as possible, without involving fractions, and such Shares to rank *pari passu* in all respects with the then existing issued Shares.

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The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's consolidated financial information as at the end of and for each of FY2017, FY2018 and the five months ended 31 May 2018 and 2019, including the notes thereto, included in Appendix I to this prospectus. The consolidated financial information of the Group have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this prospectus.

OVERVIEW

We are a slope works contractor in Hong Kong. We commenced our business in 2013 and mainly undertook slope works in the role of subcontractor during the Track Record Period. The slope works undertaken by us generally involve landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls.

During the Track Record Period, our revenue represented income derived from undertaking slope works while the costs of our operations included, staff costs for carrying out site works, subcontracting expenses, costs of construction materials such as cement and concrete, steel reinforcement, landscape materials and flexible barriers and other miscellaneous services costs required for slope works such as site planning and surveying services, motor vehicle expenses and machinery rental services.

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. In respect of public sector projects, our customers were generally construction contractors which are registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau. During the Track Record Period, the project owners of our public sector projects generally included the CEDD, the Lands Department, the Housing Authority, the Water Supplies Department and the Architectural Services Department. In respect of private sector projects, our customers were generally construction contractors engaged by property owners and educational institutions. During the Track Record Period, we had a total of 27 projects with revenue contribution to us. As at the Latest Practicable Date, we had 18 projects on hand. For further details, please refer to the paragraph headed "Business – Projects undertaken during the Track Record Period" in this prospectus.

Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain slope works mainly including soil nail works, shotcreting works and landscape works.

We generally procured the materials required for our projects from suppliers based in Hong Kong on our own account. Depending on the contract terms with our subcontractors, materials may be (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors. We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery

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and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including, in particular, the following:

Market demand of the slope works industry

Market demand of slope works is directly affected by the Government's spending budget on the public works which has a significant effect on our result of operations. During the Track Record Period, our revenue generated from public sector projects accounted for approximately 95.2%, 95.3% and 78.2% of our total revenue for FY2017, FY2018 and the five months ended 31 May 2019, respectively. The change in Government expenditures on public slope works is affected by various factors, including changes in the Government's policies in relation to the Landslip Prevention and Mitigation Programme, the amount of investment in the construction of new infrastructure and improvement of existing infrastructure by the Government, the general financial conditions of the Government and the general economic conditions in Hong Kong.

Potential mismatch in time between receipt of progress payments from our customers, payment of project up-front costs and payments to our suppliers and subcontractors may adversely affect our cash flows

We may experience net cash outflows as project up-front costs at the preliminary stage of a project which include installing temporary hoarding, performing site planning and surveying and setting up site offices. Our customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers or their authorised representatives before we issue an invoice to our customers. During the Track Record Period, depending on the scale of the projects, there was generally an average time period of two to six months since we incur up-front costs for the projects up to the time when we receive the first payment from our customers. In addition, our customers may withhold up to 10% of each of our progress payment as retention money and subject to a maximum of 5% of the total contract sum, which will be released to us upon the expiry of the defect liability period. Accordingly, our cash flow typically turns from net outflows at the early stage of a project into accumulative net inflows gradually as the project progresses. During the Track Record Period, our average amount of upfront cost required to be paid as a percentage of total project cost was approximately 8.1%. This results in a cash flow gap and in the event that we have more projects at the initial stage or that a substantial amount of retention money from various projects are being withheld by our customers at any given point of time, our liquidity may be materially and adversely affected.

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Estimation of our project costs and determination of our tender price of our projects

We need to estimate the time and costs involved in a project in order to determine our tender price. The actual amount of costs incurred in completing a project may be adversely affected by many factors, including adverse weather conditions, difficult geological conditions, shortage and cost escalation of labour and materials, customers' variation orders, accidents, unforeseen site conditions, unanticipated technical problems, departure of key project management and supervision personnel involved, non-performance by our subcontractors, and other unforeseen problems and circumstances. Any under-estimation of costs, delay or other circumstances resulting in cost overruns may adversely affect our profitability, business operation and financial performance.

Our success rate on project tendering

Projects undertaken by us, including those from the public and private sectors, are normally awarded to us through competitive tendering processes. For each of FY2017, FY2018 and the five months ended 31 May 2019, we recorded a tender success rate of approximately 50.0%, 52.9% and 70.0%, respectively. Our tender success rate is affected by a range of factors including our pricing and tender strategy, competitors' tender and pricing strategy, level of competition and our customers' evaluation standards. There is no guarantee that we will be able to achieve a tender success rate similar to those during the Track Record Period in the future.

Depending on the then market condition and competitive landscape, we may have to lower our pricing or adjust our tender strategy in order to maintain the competitiveness of our tenders. In the event that our Group fails to secure new projects from our customers of contract values, size and/or margins comparable to existing ones, our business and financial performance and results of operations will be materially and adversely affected.

Availability and performance of our subcontractors

Depending on the availability of our labour resources and the types of specialized works involved, we have from time to time subcontracted a portion of our works to subcontractors. For FY2017, FY2018 and the five months ended 31 May 2019, we incurred subcontracting expenses of approximately HK\$20.5 million, HK\$24.8 million and HK\$17.9 million, respectively. There is no assurance that the quality of services of our subcontractors can meet the requirements of our Group or our customers. There is no assurance that we are able to monitor the performance of our subcontractors as directly and efficiently as with our direct labour. Therefore, the engagement of subcontractors exposes us to the risks associated with non-performance, late performance or sub-standard performance of our subcontractors. Since we remain accountable to our customers for the performance and quality of services rendered by our subcontractors, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors' unsatisfactory performance. Such events could adversely affect our reputation, business operation, and financial position.

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BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Please refer to note 1.3 and note 2 in the Accountants' Report in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared in accordance with HKFRSs. The significant accounting policies adopted by our Group are set forth in detail in note 2 and note 3 in the Accountants' Report in Appendix I to this prospectus.

Revenue from undertaking slope works contracts

Our Group provides slope works under contracts with customers. Such contracts are entered into before the services begin. Under the terms of the contracts, our Group is contractually required to perform the services at the customers' specified sites that our Group's performance creates and enhances an asset that the customer controls as our Group performs. Revenue from slope works is therefore recognised over time using output method, i.e. based on surveys of undertaking slope works completed by our Group to date as certified by architects, surveyors or other representatives appointed by the customers. In cases where the payment certificates do not take place as at our Group's reporting period-end dates or do not exactly cover periods up to the reporting period-end dates, the revenue for the period from the last payment certificates up to the reporting period-end dates is estimated based on the actual amounts of works performed by our Group during such period as indicated by the internal progress reports, the payment applications prepared by our Group and the next payment certificates, if any, issued by our Group's customers or other representatives appointed by our Group's customers that takes place subsequent to the reporting period-end dates. The management of our Group considers that output method would faithfully depict our Group's performance towards complete satisfaction of these performance obligation under HKFRS 15.

Our Directors consider that the adoption of HKFRS 15 did not have significant impact on our financial position when comparing to that of HKAS 18 during the Track Record Period.

Impairment of trade and other receivables (excluding prepayments) and contract assets

Our Group makes allowances on items subjects to expected credit losses (including trade and other receivables (excluding prepayments), contract assets and amounts due from directors) based on assumptions about risk of default and expected loss rates. We use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period. As at 31 December 2017 and 2018 and 31 May 2019, the aggregate amounts of trade and other receivables (excluding prepayments) and contract assets amounted to HK\$14.5 million, HK\$22.0 million and HK\$29.1 million, respectively. No impairment in respect of trade and other receivables (excluding prepayments) and contract assets was recognised during the Track Record Period.

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Our Directors consider that the adoption of HKFRS 9 did not have significant impact on our financial position and performance when compared to that of HKAS 39 during the Track Record Period.

Adoption of HKFRS 16

Our Group adopted HKFRS 16 “Leases” on 1 January 2019, our Group measured and recognised the rights-of-use assets and lease liabilities by using the incremental borrowing rate at initial application date. Our Directors consider that the adoption of HKFRS 16 did not have significant impact on our financial position and performance as well as key financial ratios when compared to that of HKAS 17 “Leases” during the Track Record Period.

SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of profit or loss and other comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountants’ Report set out in Appendix I to this prospectus:

	FY2017	FY2018	Five months ended	
			31 May	
			2018	2019
			<i>(Unaudited)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	94,323	111,245	51,906	75,287
Cost of services	<u>(75,460)</u>	<u>(89,660)</u>	<u>(42,010)</u>	<u>(61,053)</u>
Gross profit	18,863	21,585	9,896	14,234
Other income, gains and losses	9	(3)	1	98
Administrative expenses	(2,230)	(2,374)	(867)	(1,663)
Listing expenses	–	(139)	–	(8,407)
Finance costs	<u>–</u>	<u>–</u>	<u>–</u>	<u>(16)</u>
Profit before income tax	16,642	19,069	9,030	4,246
Income tax expense	<u>(2,717)</u>	<u>(2,975)</u>	<u>(1,325)</u>	<u>(2,029)</u>
Profit and total comprehensive income for the year/period	13,925	16,094	7,705	2,217
Non-HKFRS measures				
Add: Non-recurring item – Listing expenses	<u>–</u>	<u>139</u>	<u>–</u>	<u>8,407</u>
Adjusted net profit for the year/period	<u><u>13,925</u></u>	<u><u>16,233</u></u>	<u><u>7,705</u></u>	<u><u>10,624</u></u>

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We recognised non-recurring items in the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profits and adjusted net profit margin as non-HKFRS measures.

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring listing expenses which is considered not indicative for evaluation of the actual performance of our business. We believe that these non-HKFRS measures provide additional information in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was fully derived from slope works. For detailed breakdown of our revenue during the Track Record Period by sector (private or public), please refer to the paragraph headed “Business – Business Overview” in this prospectus.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of the change in the amount of our revenue during the Track Record Period.

Cost of services

The table below sets forth a breakdown of our cost of services during the Track Record Period:

	FY2017		FY2018		Five months ended 31 May 2018 (Unaudited)			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct material	15,385	20.4	15,781	17.6	7,435	17.7	12,438	20.4
Depreciation	430	0.6	566	0.6	238	0.6	249	0.4
Subcontracting expenses	20,457	27.1	24,820	27.7	10,641	25.3	17,853	29.2
Direct labour	27,512	36.5	32,631	36.4	14,932	35.5	18,478	30.3
Site planning and surveying	2,793	3.7	5,183	5.8	3,179	7.6	4,440	7.3
Motor vehicles expenses	1,706	2.6	2,981	3.5	1,508	3.6	2,429	4.0
Machinery rental expenses	2,038	2.7	2,118	2.4	1,147	2.7	1,931	3.2
Repair and maintenance	534	0.7	307	0.3	54	0.1	155	0.2
Testing fee	231	0.3	674	0.8	269	0.7	437	0.7
Transportation expenses	426	0.6	466	0.5	202	0.5	249	0.4
Others	3,948	5.2	4,133	4.6	2,405	5.7	2,394	3.9
Total	75,460	100.0	89,660	100.0	42,010	100.0	61,053	100.0

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Our cost of services during the Track Record Period comprised:

- (a) Direct material, which represent costs borne by us for purchasing construction materials required for the performance of works. Our direct material includes cement and concrete, steel reinforcement, landscape materials and flexible barriers.

The hypothetical fluctuation rates for direct materials costs are set at 0.6% and 4.8%, which correspond to (i) the average CAGR in the price of cement and concrete and (ii) the CAGR in the price of steel reinforcements (being the major components of our material costs), from 2013 to 2018 as stated in the F&S Report (see “Industry overview – Potential challenges – 3. Fluctuating cost of materials in Hong Kong” in this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis.

Hypothetical fluctuations in our direct materials costs Increase/(decrease) in profit before income tax (Note)	-0.6%	-4.8%	+0.6%	+4.8%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2017	92	738	(92)	(738)
FY2018	95	757	(95)	(757)
Five months ended 31 May 2019	75	597	(75)	(597)

Note: Our profit before income tax was approximately HK\$16.6 million, approximately HK\$19.1 million and approximately HK\$4.2 million for FY2017, FY2018 and the five months ended 31 May 2019, respectively.

- (b) depreciation, which mainly represents depreciation charges for our machinery and motor vehicles;
- (c) subcontracting expenses, which are costs of engaging subcontractors for carrying out works undertaken by us. Depending on the availability of our labour resources and the types of specialized works involved, we have from time to time subcontracted a portion of our works to subcontractors. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our subcontracting expenses on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 3.4% and 13.3%, which correspond to the approximate minimum and maximum percentage changes in the average daily wage of general workers in Hong Kong from 2013 to 2018 as stated in the F&S Report (see “Industry overview – Potential challenges – 2. Rising labour cost” in this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

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Hypothetical fluctuations in our subcontracting expenses Increase/(decrease) in profit before income tax (Note)	-3.4%	-13.3%	+3.4%	+13.3%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2017	696	2,721	(696)	(2,721)
FY2018	844	3,301	(844)	(3,301)
Five months ended				
31 May 2019	607	2,374	(607)	(2,374)

Note: Our profit before income tax was approximately HK\$16.6 million, approximately HK\$19.1 million and approximately HK\$4.2 million for FY2017, FY2018 and the five months ended 31 May 2019, respectively.

- (d) Direct labour, which are costs of our staff directly involved in the provision of our services, including project management and supervision personnel as well as direct labours for carrying out site works. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our direct labour costs (in respect of our staff who are directly involved in carrying out our site works) on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 3.4% and 13.3%, which correspond to the approximate minimum and maximum percentage changes in the average daily wage of general workers in Hong Kong from 2013 to 2018 as stated in the F&S Report (see “Industry overview – Potential challenges – 2. Rising labour cost” in this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in our direct labour Increase/(decrease) in profit before income tax (Note)	-3.4%	-13.3%	+3.4%	+13.3%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2017	935	3,659	(935)	(3,659)
FY2018	1,109	4,340	(1,109)	(4,340)
Five months ended				
31 May 2019	628	2,458	(628)	(2,458)

Note: Our profit before income tax was approximately HK\$16.6 million, approximately HK\$19.1 million and approximately HK\$4.2 million for FY2017, FY2018 and the five months ended 31 May 2019, respectively.

- (e) site planning and surveying, which mainly represent costs for engaging engineers who are generally arranged by our customers for conducting inspection on the site condition and the survey costs for certain slope works processes;
- (f) motor vehicles expenses, which represent costs in relation to the use of our motor vehicles and the cost paid to Geotech Engineering Limited for arranging transportation during the provision of our slope works for its projects;
- (g) machinery rental expenses, which mainly represent rental costs for renting machinery necessary for carrying out our slope works;
- (h) repair and maintenance, which mainly represent repair and maintenance expenses for our motor vehicles and machinery;

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- (i) testing fee represent costs for testing and checking of the construction materials such as concrete and steel related products;
- (j) transportation expenses, which mainly represent expenses for transporting construction wastes resulting from our construction works and fees for transporting our construction materials and machinery to work sites;
- (k) others, which include various miscellaneous expenses relevant to the provision of our works such as insurance, printing and stationery, utility, etc.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of material fluctuations in our cost of services.

Other income, gains and losses

The table below sets forth a breakdown of our other income, gains and losses during the Track Record Period:

	FY2017	FY2018	Five months ended	
			2018	2019
			31 May	
			(Unaudited)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/gain on disposal of property, plant and equipment	(13)	(4)	1	97
Sundry income	22	1	–	1
Total	9	(3)	1	98

Our other income, gains and losses during the Track Record Period mainly comprised:

- (a) loss or gain on disposal of property, plant and equipment, which was recognised due to the disposal of our motor vehicles due to replacement during the Track Record Period; and
- (b) sundry income mainly represents bank interest income and income for arranging logistic services for a customer which was not directly related to our projects.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of material fluctuations in our other income, gains and losses.

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Administrative expenses

The table below sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2017		FY2018		Five months ended 31 May			
					2018		2019	
	HK\$'000	%	HK\$'000	%	<i>(Unaudited)</i>			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs (including directors' emoluments)	1,822	81.7	1,622	68.3	656	75.7	1,065	64.0
Depreciation	76	3.5	48	2.0	20	2.3	234	14.1
Legal and professional fee	32	1.4	101	4.3	2	0.2	-	-
Motor vehicles expenses	18	0.8	244	10.3	118	13.6	107	6.4
Operating lease charges in respect of leased premise	100	4.5	212	8.9	42	4.8	-	-
Bank charges	2	0.1	2	0.1	negligible	negligible	159	9.6
Others								
- Compassionate fee	100	4.5	-	-	-	-	-	-
- Printing and stationery	3	0.1	13	0.5	6	0.7	6	0.4
- Telephone & fax	7	0.3	35	1.5	11	1.3	15	0.9
- Training expenses	9	0.4	21	0.9	-	-	-	-
- Travelling expenses	2	0.1	16	0.7	negligible	negligible	negligible	negligible
- Other expenses	59	2.6	60	2.5	12	1.4	77	4.6
Total	2,230	100.0	2,374	100.0	867	100.0	1,663	100.0

Our administrative expenses during the Track Record Period comprised:

- (a) staff costs (including directors' emoluments), which include salaries and benefits provided to our Directors and our administrative and office staff;
- (b) depreciation, which represents depreciation charges for furniture and fixtures and motor vehicles used for administrative purpose;
- (c) legal and professional fees, which represents ISO certification fees;
- (d) motor vehicle expenses, which represent operating costs in relation to the use of our motor vehicles for administrative purpose;
- (e) operating lease charges in respect of leased premise, which represent rental costs, office management fees and rates in respect of our leased office premises;
- (f) bank charges, which represent the charges for banking services such as arrangement fee for bank confirmation and banking facility;

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- (g) compassionate fee, which represents a fee paid to the spouse of our former employee who suffered heart attack during a break from work and was certified dead. For further details, please refer to the section headed “Business – Occupational health and work safety” in this prospectus;
- (h) Printing and stationery, which represent the printing and stationery cost for administrative purpose;
- (i) telephone & fax, which represents telephone and fax cost for administrative purpose;
- (j) training expenses, which represents the costs incurred for various training courses covering area such as technical knowledge relating to the carrying out of slope works, safety, first aid and environmental matter;
- (k) travelling expenses, which represents the cost in relation to travelling; and
- (l) other expenses, which mainly include auditor’s remuneration, entertainment expenses and utilities.

Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year ended 31 December 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the FY2018 and the five months ended 31 May 2019, Hong Kong profits tax has been provided in accordance with the two-tiered profits tax rates regime.

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The taxation for the Track Record Period can be reconciled to the profit before income tax as follows:

	FY2017	FY2018	Five months ended 31 May	
			2018	2019
			<i>(Unaudited)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<u>16,642</u>	<u>19,069</u>	<u>9,030</u>	<u>4,246</u>
Tax at Hong Kong				
Profits Tax rate of				
16.5%	2,746	3,147	1,490	701
<i>Adjustments:</i>				
Tax effect of				
non-deductible				
expenses	1	23	–	1,493
Effect of two-tiered				
profits tax rates				
regime	–	(165)	(165)	(165)
Statutory tax				
concession	<u>(30)</u>	<u>(30)</u>	<u>–</u>	<u>–</u>
Income tax expenses	<u>2,717</u>	<u>2,975</u>	<u>1,325</u>	<u>2,029</u>

During the Track Record Period, our effective tax rates (calculated as income tax expense for the year/period divided by profit before income tax and listing expenses) were as follows:

	FY2017	FY2018	Five months ended 31 May	
			2018	2019
			<i>(Unaudited)</i>	
Effective tax rate:	16.3%	15.5%	14.7%	16.0%

FINANCIAL INFORMATION

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

The five months ended 31 May 2019 compared with the five months ended 31 May 2018

Revenue

Our revenue increased from approximately HK\$51.9 million for the five months ended 31 May 2018 to approximately HK\$75.3 million for the five months ended 31 May 2019, representing an increase of approximately 45.0% or approximately HK\$23.4 million. Our revenue increased because we have actively approached our existing and potential customers resulting in the increase in our number of projects with revenue contribution to us from 11 in the five months ended 31 May 2018 to 15 in the five months ended 31 May 2019. In addition, our Group was awarded with one project by Customer G, being a new customer in FY2019. The increase in the revenue of our Group was mainly because of the following:

- (i) We recorded an increase in the number of projects with revenue contribution to us and an increase in our revenue derived from projects of relatively larger scale as illustrated in the tables below:

Number of projects with revenue contribution to us

	Five months ended 31 May	
	2018	2019
	<i>(Unaudited)</i>	
Public sector projects	10	11
Private sector projects	<u>1</u>	<u>4</u>
Total	<u><u>11</u></u>	<u><u>15</u></u>

	Five months ended 31 May	
	2018	2019
	<i>(Unaudited)</i>	
	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised		
HK\$10.0 million or above	2	3
HK\$5.0 million to below HK\$10.0 million	2	2
HK\$1.0 million to below HK\$5.0 million	3	4
Below HK\$1.0 million	<u>4</u>	<u>6</u>
Total	<u><u>11</u></u>	<u><u>15</u></u>

FINANCIAL INFORMATION

- (ii) In particular, Project #03 (details of which is set out in the paragraph headed “Business – Projects undertaken during the Track Record Period” in this prospectus) had less actual work done during the five months ended 31 May 2018:

Project	Date of commencement of works	Actual or expected date of completion works	Amount of revenue recognised for the five months ended 31 May 2018	for the five months ended 31 May 2019
			<i>HK\$'000</i>	<i>HK\$'000</i>
Project #03	November 2017	November 2020	8,043	21,499

Cost of services

Our cost of services increased from approximately HK\$42.0 million for the five months ended 31 May 2018 to approximately HK\$61.1 million for the five months ended 31 May 2019, representing an increase of approximately 45.3%, which was broadly in line with the increase of approximately 45.0% in our revenue over the same period. Our cost of services mainly includes direct labour cost, subcontracting expenses, direct material, site planning and surveying expenses and machinery rental expenses.

The following is a discussion of the changes in the key components of our cost of services in the five months ended 31 May 2018 compared to the five months ended 31 May 2019:

- (i) Our subcontracting expenses increased from approximately HK\$10.6 million for the five months ended 31 May 2018 to approximately HK\$17.9 million for the five months ended 31 May 2019, representing an increase of approximately 67.8%. Such increase was mainly attributable to the increase in amount of works outsourced to subcontractors for Project #03, Project #06 and Project #08 having considered our available resources as a result of our growth in business during the five months ended 31 May 2019 as illustrated by the increase in our revenue as discussed above.
- (ii) Our direct material costs increased from approximately HK\$7.4 million for the five months ended 31 May 2018 to HK\$12.4 million for the five months ended 31 May 2019, representing an increase of approximately 67.3%. Such increase was mainly due to the consumption of cement and concrete, steel reinforcement and landscape materials in relation to Project #06, Project #03 and Project #05. According to the contract terms with our subcontractors, materials were procured by us on our own account for the use of our subcontractors for Project #03, Project #05 and Project #06. Project #05 and Project #06 were awarded to our Group in November 2018 and December 2018, respectively.

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- (iii) Our direct labour costs increased from approximately HK\$14.9 million for the five months ended 31 May 2018 to HK\$18.5 million for the five months ended 31 May 2019, representing an increase of approximately 23.7%. Such increase was mainly due to our business growth and increase of our number of site workers in the five months ended 31 May 2019.

Gross profit and gross profit margin

Our gross profit and gross profit margin during the Track Record Period were as follows:

	Five months ended 31 May	
	2018	2019
	<i>(Unaudited)</i>	
Revenue (HK\$'000)	51,906	75,287
Gross profit (HK\$'000)	9,896	14,234
Gross profit margin (%)	19.1	18.9

Our gross profit increased from approximately HK\$9.9 million in the five months ended 31 May 2018 to approximately HK\$14.2 million in the five months ended 31 May 2019, which was mainly due to the increase in our revenue as discussed above. Our gross profit margin remained relatively stable at approximately 19.1% for the five months ended 31 May 2018 and approximately 18.9% for the five months ended 31 May 2019.

Other income, gains and losses

We recorded other income and gain of approximately HK\$1,000 in the five months ended 31 May 2018 and other income and gain of approximately HK\$98,000 in the five months ended 31 May 2019. Such difference was mainly due to the gains on disposal of two motor vehicles of approximately HK\$97,000, in aggregate in the five months ended 31 May 2019.

Administrative expenses

Our administrative expenses increased from approximately HK\$0.9 million in the five months ended 31 May 2018 to approximately HK\$1.7 million in the five months ended 31 May 2019. Such increase was mainly due to (i) an increase in our staff costs (including directors' emoluments) in view of the increase of our finance and administrative staff and the general increment in salaries for our finance and administrative staff; (ii) an increase in depreciation due to the initial application of HKFRS16 for the right-of-use assets in relation to our office for the five months ended 31 May 2019; and (iii) an increase in bank charges for arranging banking facilities to support our daily operation.

FINANCIAL INFORMATION

Profit before income tax and income tax expense

Our profit before income tax decreased by approximately 53.0% from approximately HK\$9.0 million for the five months ended 31 May 2018 to approximately HK\$4.2 million for the five months ended 31 May 2019 as we incurred approximately HK\$8.4 million listing expenses in the five months ended 31 May 2019 which was one-off in nature. Our profit before income tax (excluding listing expense) increased by approximately 40.1% from approximately HK\$9.0 million in the five months ended 31 May 2018 to approximately HK\$12.7 million in the five months ended 31 May 2019.

Our income tax expense increased by approximately HK\$0.7 million from approximately HK\$1.3 million for the five months ended 31 May 2018 to approximately HK\$2.0 million for the five months ended 31 May 2019. Such increase was mainly due to the increase in our profit before income tax (excluding listing expenses) as a result of the increase in our revenue and gross profit as explained above.

Profit and total comprehensive income for the period

Profit and total comprehensive income for the period decreased by approximately HK\$5.5 million from HK\$7.7 million in the five months ended 31 May 2018 to HK\$2.2 million in the five months ended 31 May 2019. Such decrease was mainly attributable to listing expenses incurred by our Group in the five months ended 31 May 2019.

Adjusted profit and total comprehensive income for the five months ended 31 May 2019 (excluding listing expenses) increased by approximately HK\$2.9 million, which was mainly due to the increase in our revenue and gross profit as mentioned above.

FY2018 compared with FY2017

Revenue

Our revenue increased from approximately HK\$94.3 million for FY2017 to approximately HK\$111.2 million for FY2018, representing an increase of approximately 17.9% or approximately HK\$16.9 million. Our revenue increased because we have actively approached our existing and potential customers resulting in the increase in our number of customers with revenue contribution to us from 5 in FY2017 to 7 in FY2018, which contributed the following:

- (i) We recorded an increase in the number of projects with revenue contribution to us and an increase in our revenue derived from projects of relatively larger scale as illustrated in the tables below:

FINANCIAL INFORMATION

Number of projects with revenue contribution to us

	FY2017	FY2018
Public sector projects	9	11
Private sector projects	3	5
Total	12	16
	FY2017	FY2018
	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised		
HK\$10.0 million or above	3	4
HK\$5.0 million to below HK\$10.0 million	0	2
HK\$1.0 million to below HK\$5.0 million	6	6
Below HK\$1.0 million	3	4
Total	12	16

- (ii) In particular, there were two projects (i.e. Project #02 and Project #03, details of which are set out in the paragraph headed “Business – Projects undertaken during the Track Record Period” in this prospectus) which were at their initial startup stages during FY2017 resulting in less actual work done during FY2017:

Project	Date of commencement of works	Actual or expected date of completion works	Amount of revenue recognised	
			FY2017	FY2018
			<i>HK\$'000</i>	<i>HK\$'000</i>
Project #02	April 2017	December 2019	13,135	30,273
Project #03	November 2017	November 2020	1,647	28,556

Cost of services

Our cost of services increased from approximately HK\$75.5 million for FY2017 to approximately HK\$89.7 million for FY2018, representing an increase of approximately 18.8%, which was slightly higher than the increase of approximately 17.9% in our revenue over the same period. Our cost of services mainly includes direct labour cost, subcontracting expenses, direct material, site planning and surveying expenses and machinery rental expenses.

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The following is a discussion of the changes in the key components of our cost of services in FY2017 compared to FY2018:

- (i) Our subcontracting expenses increased from approximately HK\$20.5 million for FY2017 to approximately HK\$24.8 million for FY2018, representing an increase of approximately 21.3%. Such increase was mainly attributable to the increase in amount of works outsourced to subcontractors for Project #02 and Project #03 having considered our available resources as a result of our growth in business during FY2018 as illustrated by the increase in our revenue as discussed above, and in particular the increase in the number of relatively larger scale projects undertaken during FY2018 as illustrated above.
- (ii) Our direct labour costs increased from approximately HK\$27.5 million for FY2017 to HK\$32.6 million for FY2018, representing an increase of approximately 18.6%. Such increase was mainly due to our increase in the use of our own labour resources in carrying out the works. As a result, our staff costs increased as we employed more sites workers and project management personnel to cope with our increased workload in FY2018 compared to FY2017. For the details of the increase in our employees, please refer to the paragraph headed “Business – employees” in this prospectus.
- (iii) Our site planning and surveying expenses increased from HK\$2.8 million for FY2017 to HK\$5.2 million for FY2018, representing an increase of approximately 85.7%. Such increase was mainly due to the increase in the use of engineers for the inspection on sites condition and surveying services for certain slope works processes as a result of our growth in business during FY2018.

Gross profit and gross profit margin

Our gross profit and gross profit margin during the Track Record Period were as follows:

	FY2017	FY2018
Revenue (<i>HK\$'000</i>)	94,323	111,245
Gross profit (<i>HK\$'000</i>)	18,863	21,585
Gross profit margin (%)	20.0	19.4

Our gross profit increased from approximately HK\$18.9 million in FY2017 to approximately HK\$21.6 million in FY2018, which was mainly due to the increase in our revenue as discussed above. Our gross profit margin slightly decreased by approximately 0.6 percentage points from approximately 20.0% for FY2017 to approximately 19.4% for FY2018 mainly due to the increase in our use of subcontractors having considered the availability of our own labour resources as discussed above. Our Directors consider that holding all else the same, the engagement of subcontractors would generally lead to a lower profit margin for our Group, as a profit markup is generally factored in the fees charged by subcontractors.

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Other income, gains and losses

We recorded other income and gain of approximately HK\$9,000 in FY2017 and other losses of approximately HK\$3,000 in FY2018. Such difference was mainly due to the recognition of a one-off income for arranging logistic services for a customer which was not directly related to our project in FY2017.

Administrative expenses

Our administrative expenses were approximately HK\$2.2 million and approximately HK\$2.4 million for FY2017 and FY2018 respectively, which remained relatively stable. The staff cost in administrative expenses decreased from approximately HK\$1.8 million for FY2017 to approximately HK\$1.6 million for FY2018, which was mainly because we have configured mobile phone and relevant network services to our Directors and project management staffs in FY2017 and such benefit was one-off in nature.

Profit before income tax and income tax expense

Our profit before income tax increased by approximately 14.6% from approximately HK\$16.6 million for FY2017 to approximately HK\$19.1 million for FY2018 as a result of all of the aforesaid and in particular the increase in our revenue and gross profit as explained above.

Our income tax expense increased from approximately HK\$2.7 million for FY2017 to approximately HK\$3.0 million for FY2018, representing an increase of approximately 9.5%, which was lower than the increase in our profit before income tax of approximately 14.6% as a result of the combined tax effect of (i) the non-deductible listing expenses of approximately HK\$0.1 million incurred in FY2018 and (ii) the two-tiered profits tax rates regime as discussed in the paragraph headed “Principal components of results of operations – income tax expenses” above in this section.

Profit and total comprehensive income for the year

As a result of the aforesaid and in particular the effect of the increase in our gross profit, the recognition of listing expenses in FY2018 and the tax effect of the non-deductible listing expenses and two-tiered profits tax rates regime as explained above, our profit and total comprehensive income increased from approximately HK\$13.9 million for FY2017 to approximately HK\$16.1 million for FY2018, representing an increase of approximately 15.6%.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, amounts due to Directors and cash generated from our operations. Our primary liquidity requirements are to finance our working capital needs, capital expenditure and the growth of our operations. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the proceeds from the Share Offer to finance a portion of our liquidity requirements.

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As at 30 September 2019, being the most recent practicable date for the purpose of the disclosure of our liquidity position, we had cash and bank balances of approximately HK\$5.0 million and we had unutilised banking facilities of approximately HK\$9.6 million available for cash drawdown.

Cash flows

The following table sets forth a summary of our cash flows for the year/period indicated:

	FY2017	FY2018	Five months ended 31 May	
			2018	2019
			<i>(Unaudited)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	9,338	7,216	6,222	3,519
Net cash used in investing activities	(1,628)	(3,962)	(62)	(218)
Net cash used in financing activities	—	(2,000)	—	(4,806)
Net increase/(decrease) in cash and cash equivalents	7,710	1,254	6,160	(1,505)
Cash and cash equivalents at the beginning of year/period, represented by bank balances and cash	3,470	11,180	11,180	12,434
Cash and cash equivalents at the end of year/period, represented by cash and bank balances	11,180	12,434	17,340	10,929

Cash flows from operating activities

Our operating cash inflow is primarily derived from our revenue from undertaking slope works, whereas our operating cash outflow mainly includes payment for staff costs, subcontracting expenses, purchase of construction materials as well as other working capital needs. Net cash generated from operations primarily consisted of profit before income tax adjusted for depreciation, loss/(gain) on disposal of property, plant and equipment, interest expense for lease liabilities and the effect of changes in working capital such as changes in contract assets, trade and other receivables and trade and other payables.

FINANCIAL INFORMATION

The following table sets forth a reconciliation of our profit before income tax to net cash from operating activities:

	FY2017	FY2018	Five months ended	
			31 May	
			2018	2019
			<i>(Unaudited)</i>	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax	16,642	19,069	9,030	4,246
Adjustments for:				
Depreciation	506	614	258	483
Loss/(gain) on disposal of property, plant and equipment	13	4	(1)	(97)
Interest expense for lease liabilities	—	—	—	16
Operating profit before working capital changes	17,161	19,687	9,287	4,648
Increase in contract assets	(5,642)	(6,129)	(5,269)	(6,515)
Increase in trade and other receivables	(1,916)	(2,197)	(45)	(1,196)
(Decrease)/increase in trade and other payables	(265)	2,019	2,249	6,582
Cash generated from operations	9,338	13,380	6,222	3,519
Income tax paid <i>(Note)</i>	—	(6,164)	—	—
Net cash generated from operating activities	<u>9,338</u>	<u>7,216</u>	<u>6,222</u>	<u>3,519</u>

Note: Our Group did not incur any actual tax paid in FY2017 and incur approximately HK\$6.2 million actual tax paid in FY2018 mainly because (i) our assessable profit for the year of assessment 2015/16 (i.e. financial year ended 31 December 2015) was fully offset by the loss brought forward from prior years, which has been agreed by the Inland Revenue Department (the “**IRD**”); (ii) according to a tax assessment letter issued by the IRD on 28 September 2018, our tax payable for the year of assessment 2016/17 (i.e. financial year ended 31 December 2016) was due on 9 November 2018 and we have fully settled the tax in November 2018; and (iii) according to another tax assessment letter issued by the IRD on 28 September 2018, the two installments of our tax payable for the year of assessment 2017/18 (i.e. financial year ended 31 December 2017) were due on 12 November 2018 and 8 January 2019, respectively. We have fully settled these two installments of tax payments in October 2018.

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For FY2017, FY2018 and the five months ended 31 May 2019, the respective differences between our profit before income tax and net cash generated from operating activities were mainly due to (i) the amount and timing of billing to and receipts from; and (ii) the amount and timing of payment to our suppliers.

Cash flows from investing activities

	FY2017	FY2018	Five months ended	
			31 May	
			2018	2019
			<i>(Unaudited)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase of property, plant and equipment	(1,258)	(306)	(187)	(316)
Proceeds from disposal of property, plant and equipment	16	50	46	98
(Advances to)/repayment from directors	(386)	(3,706)	79	–
Net cash used in investing activities	<u>(1,628)</u>	<u>(3,962)</u>	<u>(62)</u>	<u>(218)</u>

During the Track Record Period, our cash inflows from investing activities primarily include proceeds from disposal of property, plant and equipment, whereas our cash outflows from investing activities primarily includes purchase of property, plant and equipment and advances to directors.

For FY2017, we recorded net cash used in investing activities of approximately HK\$1.6 million, which was primarily attributable to the purchase of a crane truck and an excavator of approximately HK\$1.3 million.

For FY2018, we recorded net cash used in investing activities of approximately HK\$4.0 million, which was mainly due to the cash advances by us to Mr. Sieh and Mr. Ho for their personal use and the purchase of motor vehicles and the renovation of our office.

For the five months ended 31 May 2018, we recorded net cash used in investing activities of approximately HK\$62,000, which was primarily attributable to the net effect of (i) the purchase of motor vehicles of approximately HK\$187,000; (ii) the proceeds from disposal of motor vehicle of approximately HK\$46,000; and (iii) the repayment from our directors of approximately HK\$79,000.

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For the five months ended 31 May 2019, we recorded net cash used in investing activities of approximately HK\$218,000, which was primarily attributable to the net effect of (i) the purchase of computer equipments and motor vehicles of approximately HK\$316,000, in aggregate; and (ii) the proceeds from disposal of motor vehicles of approximately HK\$98,000.

Cash flows from financing activities

	FY2017	FY2018	Five months ended 31 May	
			2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Unaudited)</i>	
Listing expenses paid	–	(2,000)	–	(1,007)
Payment of lease liabilities	–	–	–	(210)
Repayment to the directors	–	–	–	(3,589)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in financing activities	–	(2,000)	–	(4,806)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For FY2018, we recorded net cash used in financing activities of approximately HK\$2.0 million, which was attributable to the payment of listing expenses in FY2018.

For the five months ended 31 May 2019, we recorded net cash used in financing activities of approximately HK\$4.8 million, which was attributable to (i) the payment of listing expenses of approximately HK\$1.0 million; (ii) the payment of lease liabilities of approximately HK\$0.2 million in relation to our office; and (iii) the repayment to our Directors of approximately HK\$3.6 million in the five months ended 31 May 2019.

Capital expenditures

Our capital expenditures during the Track Record Period amounted to approximately HK\$1.9 million in aggregate, which comprised approximately HK\$0.3 million for motor vehicles and approximately HK\$0.8 million for furniture and fixtures and approximately HK\$0.1 million for the renovation of our office and approximately HK\$0.7 million for the purchase of a crane truck and an excavator. As at Latest Practicable Date, our Group owned certain machinery, including air compressors, crane truck and excavator, for performing slope works. We currently plan to apply for the registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” (“**Approved Specialist Contractor**”) and intend to strengthen our machinery for the fulfillment of technical requirements of being registered as an Approved Specialist Contractor and increase our capacity and efficiency for performing slope works. For further details, please refer to the paragraph headed “Business – Business strategies” in this prospectus.

FINANCIAL INFORMATION

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources presently available to our Group, including our existing cash and cash equivalents, available banking facilities, cash generated from our operations, and the estimated net proceeds to be received by us from the Listing, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this prospectus.

NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December 2017 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>	As at 31 May 2019 <i>HK\$'000</i>	As at 30 September 2019 <i>HK\$'000</i> <i>(Unaudited)</i>
Current assets				
Contract assets	11,004	17,133	23,648	31,721
Trade and other receivables	4,735	8,932	11,093	9,852
Amounts due from directors	1,362	–	–	–
Pledged bank deposits	–	–	–	5,000
Cash and bank balances	11,180	12,434	10,929	5,016
Total current assets	28,281	38,499	45,670	51,589
Current liabilities				
Trade and other payables	5,557	7,576	14,158	9,324
Amounts due to directors	–	4,931	1,342	1,351
Lease liabilities	–	–	484	450
Current tax liabilities	3,951	883	2,892	4,559
Bank overdrafts	–	–	–	419
Total current liabilities	9,508	13,390	18,876	16,103
Net current assets	18,773	25,109	26,794	35,486

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Our net current assets increased from approximately HK\$18.8 million as at 31 December 2017 to approximately HK\$25.1 million as at 31 December 2018 as a result of our business growth in FY2018. Such increase was mainly due to the increase in our contract assets of approximately HK\$6.1 million and our trade and other receivables of approximately HK\$4.2 million and cash and bank balances of approximately HK\$1.3 million.

Our net current assets increased from approximately HK\$25.1 million as at 31 December 2018 to approximately HK\$26.8 million as at 31 May 2019 as a result of our business growth in the five months ended 31 May 2019. Such increase was mainly due to the increase in our contract assets of approximately HK\$6.5 million and our trade and other receivables of approximately HK\$2.2 million.

As at 30 September 2019, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK\$35.5 million which was higher than our net current assets as at 31 May 2019, which was mainly due to our business growth in the four months ended 30 September 2019. Such increase was mainly due to the increase in our contract assets of approximately HK\$8.1 million.

DISCUSSION ON SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our Group's property, plant and equipment mainly consist of (i) plant and machineries including air compressors, crane truck and excavator; (ii) motor vehicles (iii) furniture and fixtures; (iv) leasehold improvement; and (v) right-of-use assets. As at 31 December 2017 and 2018 and 31 May 2019, our property, plant and equipment amounted to approximately HK\$2.0 million, HK\$1.6 million and HK\$2.3 million, respectively.

The increase in our property, plant and equipment was mainly contributed by (i) the initial application of HKFRS 16 for the right-of-use assets in relation to our office of approximately HK\$0.8 million; and (ii) the addition of furniture and fixtures and motor vehicles of approximately HK\$0.3 million, in aggregate, for the five months ended 31 May 2019.

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Trade and other receivables

Trade receivables

Our trade and other receivables as at 31 December 2017 and 2018 and 31 May 2019 amounted to approximately HK\$4.7 million, approximately HK\$8.9 million and approximately HK\$11.1 million, respectively. The following table sets forth a breakdown of our trade and other receivables:

	As at 31 December 2017 HK\$'000	As at 31 December 2018 HK\$'000	As at 31 May 2019 HK\$'000
Trade receivables	2,725	3,975	3,928
Other receivables	316	2	–
Prepayments	1,247	4,108	5,617
Utility and other deposits	447	847	1,548
	<u>4,735</u>	<u>8,932</u>	<u>11,093</u>

Our trade receivables increased from approximately HK\$2.7 million as at 31 December 2017 to approximately HK\$4.0 million as at 31 December 2018, representing an increase of approximately 45.9%, which was mainly due to our business growth as evidenced by our increase in revenue from approximately HK\$94.3 million for FY2017 and to approximately HK\$111.2 million for FY2018.

Our trade receivables remained relatively stable at approximately HK\$4.0 million as at 31 December 2018 and approximately HK\$3.9 million as at 31 May 2019.

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Trade receivables turnover days

The following table sets forth our trade receivables turnover days during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
Trade receivables turnover days (Note 1)	6.4 days	11.0 days	7.9 days
Trade receivables (including contract assets) turnover days (Note 2)	38.0 days	57.2 days	48.8 days

Notes:

1. Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including other receivables) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 151 days for the five months ended 31 May 2019).
2. Receivables turnover days is calculated based on the average of the beginning and ending balance of receivables (including contract assets and trade receivables) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 151 days for the five months ended 31 May 2019).

The credit period that we granted to customers generally ranged from 30 to 60 days. Some of our customers adopt a “pay when paid” policy with us and they have the rights to pay us after collection of payments from their customers. Therefore, we normally issue our invoices to such customers when we obtained notification of payment from them. Our trade receivables turnover days increased from approximately 6.4 days for FY2017 to approximately 11.0 days for FY2018, which was mainly due to (i) our business growth in FY2018 resulting in the increase in our trade receivables and (ii) the fluctuation of the amounts settled by different customers to us as at the respective reporting dates due to the different settlement practices of different customers. Our trade receivables turnover days was approximately 7.9 days for the five months ended 31 May 2019. Such decrease in our trade receivables turnover days was mainly due to the fluctuation of the amounts settled by different customers to us as at the respective reporting dates due to the different settlement practices of different customers.

Our receivables turnover days increased from approximately 38.0 days for FY2017 to approximately 57.2 days for FY2018, which was mainly due to the increase in our unbilled revenue as a result of the increase in the number of contract works that the relevant services were completed but were not yet certified as at 31 December 2018 as mentioned above. In particular, some of the works of our major projects were performed close to the end of FY2018 and such works were not yet certified as at 31 December 2018, including Project #01, Project #02 and Project #04. Our receivables turnover days was approximately 118.0 days for the five months ended 31 May 2019. Such increase was mainly due to the increase in our unbilled revenue as a result of the increase in the number of contract works that the relevant services were completed but were not yet certified as at 31 May 2019 as mentioned above. In particular, some of the works of our major projects were performed close to the five months ended 31 May 2019 and such works were not yet certified as at 31 May 2019, including Project #05, Project #03, Project #02 and Project O11.

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Trade receivables ageing analysis and subsequent settlement

The following is an ageing analysis of trade receivables presented based on the invoice dates:

	As at 31 December 2017	As at 31 December 2018	As at 31 May 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	2,725	3,856	3,928
91 days to 1 year	—	119	—
	<u>2,725</u>	<u>3,975</u>	<u>3,928</u>

Note: Our Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime ECL provision for all trade receivables. As at 31 December 2017 and 2018 and 31 May 2019, the ECL rate for trade receivables were 0.26%, 0.26% and 0.15%, respectively. As the ECL rates are close to be zero, no provision has been made during the Track Record Period accordingly.

As at the Latest Practicable Date, 100.0% of our trade receivables as at 31 May 2019 had been settled.

Prepayments

Our prepayments increased from approximately HK\$1.2 million as at 31 December 2017 to approximately HK\$4.1 million as at 31 December 2018, and further increased to approximately HK\$5.6 million as at 31 May 2019, which was mainly due to the prepayment of listing expenses in relation to the Listing of approximately HK\$1.9 million and HK\$2.9 million in FY2018 and the five months ended 31 May 2019, respectively.

Concentration

As at each of 31 December 2017, 31 December 2018 and 31 May 2019, our top five customers contributed 100.0% of our trade receivables. For further information regarding our customer concentration risk and our Directors' view as to the sustainability of our business model in view of our customer concentration, please refer to the section headed "Business – Our customers – Customer concentration" in this prospectus.

Performance guarantee

In March 2019, performance bond of HK\$2.0 million was issued by an insurance company in favour of our Group's customer as security for the due performance and observance of our Group's obligations under the contract entered into between our Group and our customer. If our Group fails to provide satisfactory performance to our customer to whom performance guarantee has been given, such customer may demand the insurance company to pay to them the sum or sum stipulated in such demand. The performance guarantee will be released upon completion of the contract.

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The performance guarantee was secured by (i) corporate guarantee provided by A-City workshop; and (ii) personal guarantees provided by our Controlling Shareholders, Mr. Ho and Mr. Sieh; and (iii) a pledged deposit in the sum of HK\$0.6 million (as included in utility and other deposits) placed by A-City workshop with the insurance company. The personal guarantees provided by our Controlling Shareholders will be released and replaced by a corporate guarantee by our Company upon Listing.

Amounts due from/(to) Director(s)

The following table sets out our amounts due from/(to) Directors as at the dates indicated:

				Maximum amount outstanding during		
	As at 31 December 2017 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>	As at 31 May 2019 <i>HK\$'000</i>	the year ended 31 December		the five months ended 31 May 2019 <i>HK\$'000</i>
				2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	
Mr. Ho	1,246	(2,247)	(459)	1,359	2,905	N/A
Mr. Sieh	116	(2,684)	(883)	232	2,316	N/A
	<u>1,362</u>	<u>(4,931)</u>	<u>(1,342)</u>			

Details of the amounts due from/(to) Directors are summarised in note 17 to the Accountants' Report set out in Appendix I to this prospectus. The amount due from/(to) Directors are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

As at 31 May 2019, there was an amount due to Directors of approximately HK\$1.3 million, representing cash advanced by Mr. Sieh and Mr. Ho to us for financing our operations. All outstanding balance of amount due to Directors will be fully settled by our internal resources before Listing.

Contract assets

The contract assets primarily represent our Group's rights to considerations from customers for the provision of slope works, which arise when: (i) our Group completed the relevant services under such contracts but yet to be certified by architects, surveyors or other representatives appointed by customers; and (ii) our customers withhold certain amounts payable to our Group as retention money to secure the due performance of the contracts during the defect liability period of construction project. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to our customer.

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Our Group's contract assets are analysed as follows:

	As at 31 December 2017	As at 31 December 2018	As at 31 May 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unbilled revenue	10,605	15,927	21,252
Retention receivables	399	1,206	2,396
	11,004	17,133	23,648

Our contract assets (excluding retention receivables) increased from approximately HK\$10.6 million as at 31 December 2017 to approximately HK\$15.9 million as at 31 December 2018. Such increase was mainly due to the increase in the number of contract works that the relevant services were completed but were not yet certified as at 31 December 2018. In particular, some of the works of our major projects were performed close to the end of FY2018 and such works were not yet certified as at 31 December 2018, including Project #01, Project #02 and Project #04, details of which are set out in the paragraph headed "Business – Projects undertaken during the Track Record Period" in this prospectus, resulting in the increase in the contract assets as at 31 December 2018 as compared to that in 2017. Out of approximately HK\$15.9 million contract assets (excluding retention receivables) as at 31 December 2018, approximately HK\$9.9 million was related to Project #01, Project #02 and Project #04.

Our contract assets (excluding retention receivables) increased from approximately HK\$15.9 million as at 31 December 2018 to approximately HK\$21.3 million as at 31 May 2019. Such increase was mainly due to the increase in the number of contract works that the relevant services were completed but were not yet certified as at 31 May 2019. In particular, some of the works of our major projects were performed close to the five months ended 31 May 2019 and such works were not yet certified as at 31 May 2019, including Project #05, Project #03, Project #02 and Project O11, details of which are set out in the paragraph headed "Business – Projects undertaken during the Track Record Period" in this prospectus, resulting in the increase in the contract assets as at 31 May 2019 as compared to as at 31 December 2018. Out of approximately HK\$21.3 million contract assets (excluding retention receivables) as at 31 May 2019, approximately HK\$17.0 million was related to Project #05, Project #03, Project #02 and Project O11.

As at 31 December 2017 and 2018 and 31 May 2019, the ECL rate for contract assets were 0.26%, 0.26% and 0.15%, respectively. As the ECL rates are close to be zero, no provision has been made during the Track Record Period accordingly.

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Receivables turnover days

The following table sets forth our receivables turnover days (including contract assets and trade receivables) during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
Receivable turnover days <i>(Notes)</i>	38.0 days	57.2 days	48.8 days

Note: Receivables turnover days is calculated based on the average of the beginning and ending balance of receivables (including contract assets and trade receivables) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 151 days for the five months ended 31 May 2019).

Subsequent settlement of contract assets (excluding retention receivables)

Up to Latest Practicable Date, 100.0% of our contract assets (excluding retention receivables) as at 31 May 2019 had been certified and billed and 100.0% of our contract assets (excluding retention receivables) as at 31 May 2019 had been settled.

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Trade and other payables

Our trade and other payables as at 31 December 2017 and 2018 and 31 May 2019 amounted to approximately HK\$5.6 million, approximately HK\$7.6 million and approximately HK\$14.2 million, respectively. The following table sets forth a breakdown of our trade and other payables:

	As at 31 December 2017 HK\$'000	As at 31 December 2018 HK\$'000	As at 31 May 2019 HK\$'000
Trade payables	5,354	7,226	12,514
Accruals and other payables	<u>203</u>	<u>350</u>	<u>1,644</u>
	<u><u>5,557</u></u>	<u><u>7,576</u></u>	<u><u>14,158</u></u>

Our trade payables mainly comprised payables to subcontractors and material suppliers. Our trade payables increased from approximately HK\$5.4 million as at 31 December 2017 to approximately HK\$7.2 million as at 31 December 2018 and further increased to approximately HK\$12.5 million as at 31 May 2019, representing an increase of approximately 35.0% and approximately 73.2%, respectively. Such increase was mainly due to our business growth resulting in the increase in our subcontracting expenses for FY2018 and the five months ended 31 May 2019.

Trade payables turnover days

The following table sets out our trade payables turnover days during the Track Record Period:

	FY2017	FY2018	Five months ended 31 May 2019
Trade payables turnover days (<i>Note</i>)	25.9 days	25.6 days	24.4 days

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including accruals and other payables) divided by cost of services for the year/period, then multiplied by the number of days of the year (i.e. 365 days for a full year or 151 days for the five months ended 31 May 2019).

Our trade payables turnover days was approximately 25.9 days for FY2017, approximately 25.6 days for FY2018 and approximately 24.4 days for the five months ended 31 May 2019, which remained relatively stable.

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Trade payables ageing analysis and subsequent settlement

The following is an ageing analysis of trade payables based on the invoice dates:

	As at 31 December 2017 HK\$'000	As at 31 December 2018 HK\$'000	As at 31 May 2019 HK\$'000
Within 30 days	5,226	7,192	11,808
31 days to 60 days	52	–	634
61 days to 90 days	74	7	–
Over 90 days	<u>2</u>	<u>27</u>	<u>72</u>
	<u>5,354</u>	<u>7,226</u>	<u>12,514</u>

Up to the Latest Practicable Date, 99.3% of our trade payables as at 31 May 2019 had been settled.

INDEBTEDNESS

The following table sets forth our Group's indebtedness as at the dates indicated. As at 30 September 2019, being the most recent practicable date for the purpose of the disclosure of our indebtedness position, save as disclosed below, we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, contingent liabilities, or guarantees. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there had not been any material change in our indebtedness or contingent liabilities since 30 September 2019 and up to the date of this prospectus. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

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	As at 31 December		As at 31 May	As at 30 September
	2017	2018	2019	2019
	<i>HK\$'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
				<i>(Unaudited)</i>
Current liabilities				
Amounts due to directors (<i>Note 1</i>)	–	4,931	1,342	1,351
Lease liabilities (<i>Note 2</i>)	–	–	484	450
Bank overdrafts	–	–	–	419
	<u>–</u>	<u>–</u>	<u>–</u>	<u>419</u>
Non-current liabilities				
Lease liabilities (<i>Note 2</i>)	–	–	125	–
	<u>–</u>	<u>–</u>	<u>125</u>	<u>–</u>

Notes:

1. All outstanding balance of amounts due to directors were non-trade in nature and will be fully settled by our internal resources before Listing.
2. Upon the initial adoption of HKFRS 16 “Lease” on 1 January 2019, our Group measures the rights-of-use assets and lease liabilities by using the incremental borrowing rate at initial application date. As at 31 May 2019, our Group had recognised lease liabilities of approximately HK\$609,000, of which approximately HK\$484,000 had been classified under current liabilities. As at 30 September 2019, our Group had recognised lease liabilities of approximately HK\$450,000, of which approximately HK\$450,000 had been classified under current liabilities.

Banking facilities

As at 30 September 2019, our Group had banking facilities with credit limit amounting to approximately HK\$10.0 million. The banking facility was secured by (i) personal guarantees of Mr. Ho and Mr. Sieh, all of which will be replaced by the corporate guarantee of the Company upon Listing; and (ii) a bank deposit of HK\$5.0 million placed by A-City Workshop.

The unutilized banking facilities as at 30 September 2019 amounted to approximately HK\$9.6 million.

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Commitments

As at 31 December 2017 and 2018, the total future minimum lease payments payable by our Group under non-cancellable operating leases are as follow:

	As at 31 December	
	2017	2018
	HK\$'000	HK\$'000
Within one year	91	503
In the second to fifth years	<u>—</u>	<u>336</u>
	<u>91</u>	<u>839</u>

The lease typically run for an initial period of 2 years. Upon the initial adoption of HKFRS 16 “Lease” on 1 January 2019, our Group measures the rights-of-use assets and lease liabilities by using the incremental borrowing rate at initial application date. As at 31 May 2019, our Group had recognised lease liabilities of approximately HK\$609,000, of which approximately HK\$484,000 had been classified under current liabilities. As at 30 September 2019, our Group had recognised lease liabilities of approximately HK\$450,000, of which approximately HK\$450,000 had been classified under current liabilities.

Potential litigations

During the Track Record Period, we have been involved in certain litigation and claims, details of which are disclosed in the section headed “Business – Litigations and claims” in this prospectus. Our Directors are of the opinion that the litigations and claims are not expected to have a material impact on our financial position. Accordingly, no provision has been made to our Group’s financial statements.

Off-balance sheet arrangements and commitments

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements or commitments.

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KEY FINANCIAL RATIOS

	As at/For the year ended 31 December		As at/For the five months ended 31 May
	2017	2018	2019
Revenue growth	N/A	17.9%	45.0%
Net profit growth	N/A	15.6%	(71.2)%
Gross profit margin	20.0%	19.4%	18.9%
Net profit margin before interest and tax	17.6%	17.1%	5.7%
Net profit margin	14.8%	14.5%	2.9%
Net debt to equity ratio	Net cash	Net cash	Net cash
Interest coverage	N/A	N/A	266.4
Return on total assets	46.0%	40.1%	4.6%
Return on equity	68.0%	60.6%	7.7%
Current ratio	3.0	2.9	2.4
Quick ratio	3.0	2.9	2.4
Gearing ratio	0%	18.6%	6.8%

Revenue growth

Our revenue increased from approximately HK\$94.3 million for FY2017 to approximately HK\$111.2 million for FY2018, while our revenue increased from approximately HK\$51.9 million for the five months ended 31 May 2018 to approximately HK\$75.3 million for the five months ended 31 May 2019. Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons of the increase in our revenue.

Net profit growth

Our profit and total comprehensive income for the year increased from approximately HK\$13.9 million for FY2017 to approximately HK\$16.1 million for FY2018, while our profit and total comprehensive income decreased from approximately HK\$7.7 million for the five months ended 31 May 2018 to approximately HK\$2.2 million for the five months ended 31 May 2019. Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons of the fluctuation in our net profit.

Gross profit margin

Our gross profit margin was approximately 20.0% for FY2017 and approximately 19.4% for FY2018, representing a decrease of approximately 0.6 percentage points, while our gross profit margin remained broadly stable at approximately 19.1% for the five months ended 31 May 2018 and approximately 18.9% for the five months ended 31 May 2019. Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons of fluctuation in our gross profit margin.

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Net profit margin before interest and tax

Our net profit margin before interest and tax decreased from approximately 17.6% for FY2017 to approximately 17.1% for FY2018. Such decrease was mainly due to the decrease in gross profit margin as discussed in the paragraph headed “Period-to-period comparison of results of operations” in this section.

Our net profit margin before interest and tax was approximately 17.4% for the five months ended 31 May 2018 and approximately 5.6% for the five months ended 31 May 2019, representing a decrease of approximately 11.8 percentage points. Such decrease was mainly due to the non-recurring listing expenses of approximately HK\$8.4 million incurred by our Group during the five months ended 31 May 2019. Our net profit margin before interest and tax (excluding listing expenses) slightly decreased from approximately 17.4% for the five months ended 31 May 2018 to approximately 16.8% for the five months ended 31 May 2019. Such slight decrease was mainly due to the increase in our administrative expenses as discussed in the paragraph headed “Period to period comparison of results of operations” in this section.

Net profit margin

Our net profit margin was approximately 14.8% for FY2017 and approximately 14.5% for FY2018, representing a decrease of approximately 0.3 percentage points. This was mainly due to the decrease in net profit margin before interest and tax and the tax effect of the non-deductible listing expenses recognised in FY2018 and the two-tiered profits tax rates regime.

Our net profit margin was approximately 14.8% for the five months ended 31 May 2018 and approximately 2.9% for the five months ended 31 May 2019, representing a decrease of approximately 11.9 percentage points. Such decrease was mainly due to the non-recurring listing expenses recognised in the five months ended 31 May 2019 as discussed above.

Return on equity

Return on equity is calculated as profit for the year/period divided by the ending total equity as at the financial year-end date.

Our return on equity decreased from approximately 68.0% for FY2017 to approximately 60.6% for FY2018, which was mainly because (i) during FY2018, there was cash advances by us to Mr. Sieh and Mr. Ho for their personal use of approximately HK\$5.1 million which was subsequently offset by the dividend of approximately HK\$10.0 million during the same financial year and such amount had therefore not been immediately put into use for any investments to further grow our business operations and to generate returns; and (ii) a slight decrease in our gross profit margin from approximately 20.0% in FY2017 to approximately 19.4% in FY2018.

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Our return on equity decreased from approximately 27.3% for the five months ended 31 May 2018 to approximately 7.7% for the five months ended 31 May 2019. Such decrease was mainly because the non-recurring listing expenses recognised in the five months ended 31 May 2019 as discussed above. Our return on equity (excluding listing expenses) for the five months ended 31 May 2019 would be approximately 36.9%. Such increase was mainly due to the increase in our adjusted profit and total comprehensive income (excluding listing expenses) for the five months ended 31 May 2019 as a result of our business growth as mentioned above in the paragraph headed “Period to period comparison of results of operations” above in this section.

Return on total assets

Return on total assets is calculated as profit for the year/period divided by the ending total assets as at the financial year-end date.

Our return on total assets decreased from approximately 46.0% for FY2017 to approximately 40.1% for FY2018. Similar to the reason for the decrease in our return on equity, the decrease in our return on assets was mainly due to the cash advances by us to our Directors during FY2018 and the slight decrease in our gross profit margin in FY2018 as compared to that in FY2017.

Our return on assets decreased from approximately 18.5% for the five months ended 31 May 2018 to approximately 4.6% for the five months ended 31 May 2019, such decrease was mainly because the non-recurring listing expenses recognised in the five months ended 31 May 2019 as discussed above. Our return on assets (excluding listing expenses) for the five months ended 31 May 2019 would be approximately 22.1%. Such increase was mainly due to the net effect of (i) the increase in our adjusted profit and total comprehensive income (excluding listing expenses) for the five months ended 31 May 2019 as a result of our business growth as mentioned above in the paragraph headed “Period to period comparison of results of operations” above in this section and (ii) the increase in our property, plant and equipment as at 31 May 2019.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio remained broadly stable at approximately 3.0 times as at 31 December 2017, approximately 2.9 times as at 31 December 2018 and approximately 2.4 times as at 31 May 2019.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates. Due to our business nature, we did not maintain any inventories during the Track Record Period. As such, our quick ratio is the same as our current ratio.

FINANCIAL INFORMATION

Inventories turnover days

Due to the nature of our business, we did not maintain any inventories during the Track Record Period. As such, analysis of inventories turnover days is not applicable.

Gearing ratio

Gearing ratio is calculated as total borrowings (i.e. amounts due to directors and lease liabilities) divided by the total equity as at the respective reporting date.

Our gearing ratio was zero as at 31 December 2017 and approximately 18.6% as at 31 December 2018. As at 31 December 2018, we recorded an amounts due to our directors of approximately HK\$4.9 million which representing cash advanced by Mr. Sieh and Mr. Ho to us for financing our operations.

Our gearing ratio was approximately 18.6% as at 31 December 2018 and approximately 6.8% as at 31 May 2019. Such decrease was mainly due to the repayment to our Directors by approximately HK\$3.6 million during the five months ended 31 May 2019.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. payables incurred not in the ordinary course of business net of cash and cash equivalents) divided by total equity as at the respective reporting date.

We recorded net cash positions as at both 31 December 2017, 2018 and 31 May 2019.

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting years/period.

Our interest coverage was zero as at 31 December 2017 and 2018, respectively, while it was approximately 266.4 times for the five months ended 31 May 2019. Since our Group recognised the lease liabilities as at 31 May 2019 under the initial application of HKFRS 16, interest expense incurred by our lease liabilities of approximately HK\$16,000 was recorded for the five months ended 31 May 2019.

RELATED PARTY TRANSACTIONS

We did not have any significant related party transactions during the Track Record Period save as the amounts due from/to directors and the key management personnel remuneration. For further details, please refer to note 23 to the Accountants' Report in Appendix I in this prospectus.

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FINANCIAL RISK AND CAPITAL MANAGEMENT

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to “Business – Risk management and internal control systems” and note 25 in section II of the Accountants’ Report set out in Appendix I to this prospectus.

The Group’s capital management objectives are to ensure the Group’s ability to continue as a going concern and to maintain capital structure in order to minimise the costs of capital, support its business and maximise shareholders’ value.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings (including lease liabilities) net of cash and bank balance. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, share buyback, issue new shares and raise new debts.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for further details.

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$25.0 million. Out of the amount of approximately HK\$25.0 million, approximately HK\$8.5 million is directly attributable to the issue of the Offer Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$16.5 million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$16.5 million that shall be charged to profit or loss, nil, approximately HK\$0.1 million and approximately HK\$8.4 million has been charged for each of FY2017, FY2018 and the five months ended 31 May 2019, respectively and approximately HK\$8.0 million is expected to be incurred for the seven months ending 31 December 2019. Expenses in relation to the Listing are non-recurring in nature. Our Group’s financial performance and results of operations for FY2019 will be affected by the expenses in relation to the Listing.

DIVIDEND

For each of FY2017, FY2018 and the five months ended 31 May 2019, we declared dividends payables of nil, approximately HK\$10.0 million and nil, respectively to our then shareholders. The dividend was paid by setting off against the amounts due from Mr. Sieh and Mr. Ho during FY2018. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors including our operation and financial performance, profitability, business development, prospects, capital requirements

FINANCIAL INFORMATION

and economic outlook. It is also subject to the approval of our Shareholders as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payment ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 30 January 2019. As at 31 December 2017, 2018 and 31 May 2019, our Company had no reserves available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had they been required to comply with Rules 17.15 to 17.21 of the GEM Listing Rules, would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 May 2019, and there have been no events since 31 May 2019 which would materially affect the information shown in our consolidated financial information included in the Accountants' Report set forth in Appendix I to this prospectus. It is expected that our revenue recognised and our gross profit for the five months ended 31 October 2019 will remain stable as compared to that for the five months ended 31 May 2019.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Our Group will endeavour to expand our business operations by adopting our business strategies through the following implementation plans. For details of our business strategies, please refer to the paragraph headed “Business – Business strategies” in this prospectus. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to in the paragraph headed “Bases and assumptions” in this section. These bases and assumptions are subject to uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” in this prospectus. Our Group’s actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will be materialised in accordance with the expected time frame or that the business objectives of our Group will be accomplished at all.

REASONS FOR THE LISTING

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong slope works industry. We intend to achieve our business objective by (i) applying for registration on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”; and (ii) expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional slope works projects, from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand. Our executive Directors believe that the Listing is beneficial to our Company and our Shareholders as a whole because of the following reasons:

- the net proceeds from the Share Offer will provide financial resources to our Group for our business plans as set out in the paragraph headed “Business – Business strategies” of this prospectus, which will further strengthen our market position and expand our market share in the slope works industry in Hong Kong. In particular, we intend to apply part of the net proceeds for fulfilling the working capital requirement for being a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”;
- a public listing status will enhance our corporate profile and recognition and enable our Group to be considered more favourably by our customers when tendering for slope works projects, given that a listed company is subject to ongoing regulatory compliance for announcements, financial disclosures and corporate governance;
- a public listing status will also facilitate us in retaining and attracting talents to join our Group. Access to a larger pool of talents will improve our service quality and facilitate our recruitment of additional manpower under our expansion plans. In addition, the status of being a listed company will facilitate our in-house talent

FUTURE PLANS AND USE OF PROCEEDS

management, through staff retention and development, whereby our existing staff may be motivated to further develop their career with us in view of the perceived status associated with working for a listed company in Hong Kong;

- the Share Offer will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders. Such platform would allow us to gain direct access to the capital market for equity and/or debt financing, both at the time of the Listing as well as at later stage, to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance to enhance Shareholder's return; and
- upon the Listing, our Shares will be freely traded on the Stock Exchange. A public listing status on GEM will offer us a broader shareholder base which could lead to a more liquid market in the trading of our Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the Listing.

Funding needs for implementing our business strategies

(i) Our available working capital as at the Latest Practicable Date is not sufficient to finance our expansion plan

As at 30 September 2019, our available working capital which comprised (i) our cash and bank balances of approximately HK\$5.0 million; and (ii) our unutilised banking facilities of approximately HK\$9.6 million, amounted to a total of approximately HK\$14.6 million. For further details, please refer to the section headed "Financial information – Net current assets" in this prospectus. Our executive Directors consider that the amount of our available working capital fluctuates from time to time, mainly depending on the timing of (i) payment from our customers; and (ii) payment to our subcontractors and suppliers of materials. Therefore, the amount of our available working capital as at a particular date may not fully reflect our general liquidity position. Some of our customers, including our top two customers for FY2017 and FY2018 (i.e. Tai Kam Construction Engineering Company Limited and Fong On Construction Limited) adopt a "pay when paid" policy with us and they have the rights to pay us after collection of payments from their customers. In the event our customers fail to collect payment from their customers, this will, in turn, adversely affect the collectability of our payments from our customers. In respect of our other customers, we generally grant them a credit terms for a period of 30 to 60 days from the invoice date. Meanwhile, we have not adopted any "pay when paid" policy with our suppliers and we are required to pay within the credit term, generally ranging from 0 to 45 days, granted by our suppliers. Based on the foregoing, there can be no assurance that we will receive payments from our customers before we are required to settle our suppliers' invoices and other current liabilities, which may result in possible cash flow mismatch.

Based on the current scale of our operations and the costs incurred by us during the Track Record Period, our executive Directors estimate that we currently have to incur an average monthly expense of approximately HK\$6.6 million, primarily comprising staff cost,

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subcontracting expenses, administrative expenses and cost of materials for our daily operations. As at the Latest Practicable Date, the total estimated revenue to be recognised from our projects on hand after the Track Record Period amounted to approximately HK\$264.6 million, which is higher than the value of our backlog as at 31 December 2017 (i.e. approximately HK\$168.7 million), 31 December 2018 (i.e. approximately HK\$155.5 million) and the five months ended 31 May 2019 (i.e. approximately HK\$154.0 million), respectively. During the Track Record Period, our operating expenses had increased as our revenue increased. In light of the increase in our backlog value as at the Latest Practicable Date as compared to the year-end dates during the Track Record Period as indicated above, our executive Directors expect that we will have to incur a higher amount of monthly expense for supporting our future operations.

As at the Latest Practicable Date, our Group was in the course of arranging the performance guarantee as required by the relevant customers for two of our projects on hand. The table below sets forth the details of these projects:

Project No.	Time of award	Customer	Location of the project	Private/ public sector	Estimated contract sum <i>HK\$'000</i>	Percentage of estimated contract sum required as performance guarantee	Amount of performance guarantee <i>HK\$'000</i>
Project F5	July 2019	Geotech Engineering Limited	Various locations in Hong Kong	Public	41,000	10%	4,100
Project F6	July 2019	Geotech Engineering Limited	Various locations in Kowloon and New Territories	Public	28,000	10%	2,800
						Total:	<u>6,900</u>

For further details of these projects, please refer to the paragraph headed “Business – Business Strategies – 4. Increasing our reserve for financing the issue of performance guarantees” in this prospectus.

Pursuant to the contract terms of these projects, we were required to provide performance guarantee issued by banks or insurance companies in the amount of approximately 10% of the contract sum of the respective projects in favour of Geotech Engineering Limited. When arranging with bank or insurance company for the issuance of performance guarantee, a pledged deposit equivalent to a certain percentage (i.e. 30-40%) of the performance guarantee is normally required to be placed with the bank or insurance company. As at the Latest Practicable Date, we were still in the course of arranging the performance guarantee for these projects.

Based on our past experience, we expect that we would have to provide a pledged deposit equivalent to at least 30% of the amount of performance guarantee to be issued. As we are required to take out performance guarantee in the total amount of HK\$6.9 million for the two projects on hand aforementioned, we expect that we will be required by the issuing

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insurance company/bank to place a pledged deposit of approximately HK\$2.1 million (which is equivalent to 30% of the total amount of performance guarantee required). Based on the foregoing, our executive Directors consider that it is prudent for us to reserve HK\$2.1 million of our available working capital for financing the issue of performance guarantee in relation to our projects on hand.

Out of our available working capital of approximately HK\$14.6 million as at 30 September 2019, our Group had reserved a sum of HK\$4.6 million for settlement of our current tax liabilities. Based on the above analysis, after reserving (i) approximately HK\$2.1 million for financing the issue of performance guarantee for our projects on hand, and (ii) approximately HK\$4.6 million for settlement of our current tax liabilities, and without taking into account other transactions that took place after 30 September 2019, our current available working capital is approximately HK\$7.9 million. In view of the aforesaid, our current available working capital would not allow room for our further business expansion such as fulfilling the working capital requirement for being a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls” and/or undertaking additional projects which would inevitably require more available cash for up-front costs and general working capital. Therefore, our executive Directors consider that we will need to raise additional funding through the Share Offer to facilitate the implementation of our future plans, while reserving our current available working capital for our existing business operations.

(ii) Equity financing enables us to formulate and implement an integral expansion plan

We currently intend to pursue the following business strategies under our expansion plan: (i) reserving additional working capital to fulfil the requirements for being a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”; (ii) strengthening our manpower to increase our service capacity; (iii) strengthening our machinery; and (iv) increasing our reserve for financing the issue of performance guarantees. For further details on our business strategies, please refer to the paragraph headed “Business – Business strategies” in this prospectus.

The aforesaid business strategies are mutually complementary and represent an integral initiative to further strengthen our market position, increase our market share and capture the growth in the Hong Kong slope works industry. For instance, our ability to tender for Government projects as Approved Specialist Contractor largely depends on our available financial resources in fulfilling the Specific Working Capital Requirement stipulated by the Development Bureau. The acquisition of additional types of Specified Machinery will facilitate our application to become an Approved Specialist Contractor. Meanwhile, after being registered as an Approved Specialist Contractor, we expect to obtain additional contract works which, in turn, will increase our machinery and manpower needs. In addition, as we continue to diversify our customer base, some new customers (e.g. Geotech Engineering Limited and Customer G) may require us to arrange for performance guarantee to secure our obligations under the projects awarded by them. Having considered the present scale of our operations and the available resources, we would only be able to leverage on

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the qualification of Approved Specialist Contractor to obtain additional projects if it is matched with a corresponding expansion in our service capacity and financial resources simultaneously.

As our entire expansion plan requires a total sum of approximately HK\$40.0 million, our executive Directors consider that we could not finance our expansion plan solely by our internal resources without adversely affecting our financial position and liquidity. In particular, our Group recorded net cash generated from operating activities of approximately HK\$9.3 million and HK\$7.2 million for FY2017 and FY2018, respectively. If our expansion plan is carried out by phases and financed solely with our net cash generated from operating activities in each financial year, it would take us approximately five to six years to complete our expansion. Further, there is uncertainty in making estimation about the level of our operating cash inflow over a timespan of five to six years. The level of net cash generated from operating activities may fluctuate from time to time and is affected by factors beyond our control, mainly including (i) the amount and timing of billing to and receipts from our customers; and (ii) the amount and timing of payment to our staff, subcontractors and materials suppliers. In addition, our estimated average monthly cash outflow required for our daily operations for FY2019 after taking into account our expansion plans will be approximately HK\$12.6 million. There is no guarantee that we will be able to generate sufficient cash inflow from our operating activities in each of the forthcoming five to six years to support our expansion plan. Even if we could accumulate sufficient cash inflow from our operating activities to support our expansion within five to six years, by that time, we would have lost the opportunity to fully capture the forecasted growth in the slope works industry from 2019 to 2023 as stated in the F&S Report.

Following our registration as an Approved Specialist Contractor, the additional projects obtained by us would entail stronger revenue stream. But at the same time, this would also lead to an increase in our liquidity needs for financing project up-front costs and meeting the working capital requirement for being an Approved Specialist Contractor. During the Track Record Period, the average amount of up-front cost required to be paid amounted to approximately 8.1% of the total project cost. In order to tender for public sector projects directly from the Government after becoming an Approved Specialist Contractor, we will be required to fulfil the Specific Working Capital Requirement. Under the Specific Working Capital Requirement, our Group will have to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors. Based on the breakdown set out in the paragraph headed “Business – 1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor – (II) Our additional funding needs to fulfil the Specific Working Capital Requirement for being an Approved Specialist Contractor”, it is estimated that our Group will have to earmark working capital of approximately HK\$22.2 million for satisfying the Specific Working Capital Requirement. In addition, we will also have to acquire additional types of machinery in order to become eligible as an Approved Specialist Contractor. We currently plan to use approximately HK\$4.7 million for the acquisition of additional machinery. Given our current available working capital of approximately HK\$7.9 million as at 30 September 2019, our Group will not be able to meet the Specific Working Capital Requirement and finance our machinery acquisition solely with the use of our own internal resources.

FUTURE PLANS AND USE OF PROCEEDS

Having considered the above, our executive Directors are of the view that, as compared to relying on our operating cash inflow, equity financing can provide the necessary funding for us to pursue each of the four business strategies under our expansion plan in a well-coordinated and timely manner.

(iii) Benefits of equity financing over debt financing

When considering the options for funding our expansion plans, our executive Directors have taken into account the following factors and decided that it is in the interests of our Group and our Shareholders as a whole to proceed with equity financing in the form of Listing rather than through a combination of our internal resources and bank borrowings:

- save for term loans with specified repayment schedule, loan facilities (e.g. bank overdraft or revolving loan, etc.) granted by banks or lending companies normally include a clause which stipulates that loan drawn under the facilities shall be repayable on demand subject to their discretion. Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, shortfall in working capital for being an Approved Specialist Contractor can be rectified by the arrangement of a bank loan that is not repayable within 12 months. Therefore, those loan facilities which are repayable on demand will not be acceptable to the Development Bureau in evaluating our level of working capital required for being an Approved Specialist Contractor;
- with a view to enhancing the working capital available for supporting our daily operations in June 2019, A-City Workshop entered into a facility letter with a licensed bank in Hong Kong, pursuant to which A-City Workshop obtained general banking facilities (the “**Banking Facilities**”) in the total amount of up to HK\$10.0 million. The Banking Facilities were secured by (i) personal guarantees of Mr. Ho and Mr. Sieh, all of which will be replaced by corporate guarantee of our Company; and (ii) a bank deposit of HK\$5.0 million placed by A-City Workshop with the licensed bank. Pursuant to the terms of the Banking Facilities, the licensed bank may at any time without prior notice declare any outstanding amount to be immediately due and payable. Given any loans drawn under the Banking Facilities are repayable on demand, they will not be acceptable to the Development Bureau in evaluating our level of working capital required for satisfying the Special Working Capital Requirement for being an Approved Specialist Contractor;
- we have previously applied to three lending companies which are Non-Authorised Institutions in Hong Kong each for an unsecured loan facility in the amount of HK\$10.0 million. Each of these lending companies have rejected our applications after their credit approval evaluations. Based on our enquiries with the lending companies, our applications were rejected because, according to their internal policies, they normally do not grant any loan facility to private company unless the applicant and/or its shareholder(s) could provide acceptable assets as security for 100% to 200% of the loan amount, depending on the nature of security assets and the loan amount involved. As at 31 May 2019, the carrying amount for our fixed assets being acceptable as loan security, mainly comprising our machinery

FUTURE PLANS AND USE OF PROCEEDS

and equipment, only amounted to HK\$0.6 million. Therefore, our Group did not have sufficient available assets to provide for the required loan security. Each of the lending companies has confirmed that their rejections are unrelated to any historical financing records, individual creditworthiness or compliance status of our Group; and

- bank borrowings are subject to repayment obligations for the principal amount and associated interest expenses. Our borrowing costs incurred therefrom may adversely affect our financial performance and liquidity. By comparison, the proceeds from the Listing will become our equity without any additional financial repayment obligations (i.e. principal amount and associated interest expenses) towards our Shareholders under normal circumstances.

USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer assuming the Offer Size Adjustment Option is not exercised based on the Offer Price of HK\$0.65 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.6 to HK\$0.7 per Offer Share, after deducting the related expenses, are estimated to be approximately HK\$40.0 million. We intend to apply such net proceeds in the following manner:

- (i) approximately HK\$22.0 million, representing approximately 55.0% of the estimated net proceeds, will be earmarked for satisfying the applicable working capital requirement which is to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts for being a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls” (“**Approved Specialist Contractor**”). For further details on the applicable working capital requirement, please refer to the paragraph headed “Business – Business strategies – 1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor” in this prospectus;
- (ii) approximately HK\$11.3 million, representing approximately 28.3% of the estimated net proceeds, for strengthening our manpower by recruiting additional staff, including project manager/site agent, site engineer, site foremen, safety officer/supervisor, labour officer, crane truck operator, site workers and administrative staff;
- (iii) approximately HK\$4.7 million, representing approximately 11.7% of the estimated net proceeds, will be used for financing the acquisition of additional machinery, namely drilling rigs, grout pumps, shotcrete machine, pneumatic drill, crane truck, air compressors, generators and motor vehicles; and
- (iv) approximately HK\$2.0 million, representing approximately 5.0% of the estimated net proceeds, will be used for increasing our reserve for financing the issue of performance guarantees in favour of our customers.

FUTURE PLANS AND USE OF PROCEEDS

The following table summarises how the net proceeds to be received by us from the Share Offer are intended to be applied and the timing of application:

	From the Latest Practicable Date to 31 December 2019 <i>HK\$'million</i>	For the six months ending 30 June 2020 <i>HK\$'million</i>	For the six months ending 31 December 2020 <i>HK\$'million</i>	For the six months ending 30 June 2021 <i>HK\$'million</i>	Total <i>HK\$'million</i>	Approximate % of net proceeds
Strengthening our manpower by recruiting additional staff	1.0	3.0	4.7	2.6	11.3	28.3%
Acquisition of additional machinery	4.7	–	–	–	4.7	11.7%
Increasing our reserve for financing the issue of performance guarantees in favour of our customers	2.0	–	–	–	2.0	5.0%
Sub-total	7.7	3.0	4.7	2.6	18.0	45.0%
Maintaining the specific working capital required for being an Approved Specialist Contractor from the Latest Practicable Date to 31 December 2021					22.0	55.0%
Total					40.0	100.0%

If the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Share Offer will increase or decrease by approximately HK\$5.0 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest of the indicative Offer Price range. Our executive Directors consider that the net proceeds from the Share Offer will be sufficient to finance our Group's business plans up to the period ending 31 December 2021.

In the event that the Offer Price is determined at the high-end of the Offer Price (i.e. HK\$0.7) and the Offer Size Adjustment Option is exercised in full, we intend to apply the additional net proceeds from the Share Offer to the above uses in the proportions stated in the preceding paragraphs above.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds from the issue of the Share Offer are not immediately required for the purposes above, it is the present intention of our executive Directors that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong. Should our executive Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will issue an announcement in accordance with the GEM Listing Rules. In the event that the net proceeds from the Share Offer are insufficient to finance the expenditure as mentioned above, the shortfall will be financed by the internal resources of our Group and/or external borrowings.

IMPLEMENTATION PLAN

We will endeavour to achieve the following milestone events for each of the six-month period from the Latest Practicable Date up to 31 December 2021, and 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.

From the Latest Practicable Date to 31 December 2019

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	Recruit a project manager/site agent, a site engineer, a site foreman, a safety office/supervisor, a labour officer, a crane truck operator, 11 site workers and an administrative staff	1.0
Acquisition of additional machinery	Acquire four drilling rigs, three grout pumps, one shotcrete machine, one pneumatic drill, one crane truck, four air compressors, two generators and five motor vehicles	4.7
Increasing our reserve for financing the issue of performance guarantees in favour of our customers	Increasing our reserve for financing the issue of performance guarantees	2.0

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 June 2020

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	<ul style="list-style-type: none"> ● Salary payments for a project manager/site agent, a site engineer, a site foreman, a safety office/supervisor, a labour officer, a crane truck operator, 11 site workers and an administrative staff recruited during the period from the Latest Practicable Date to 31 December 2019 	3.0

For the six months ending 31 December 2020

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	<ul style="list-style-type: none"> ● Recruit a site foreman, 14 site workers and an administrative staff ● Salary payments for a project manager/site agent, a site engineer, a site foreman, a safety office/supervisor, a labour officer, a crane truck operator, 11 site workers and an administrative staff recruited during the period from the Latest Practicable Date to 31 December 2019 	4.7

For the six months ending 30 June 2021

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	<ul style="list-style-type: none"> ● Salary payments for a site foreman, 14 site workers and an administrative staff recruited during the six months ending 31 December 2020 	2.6

FUTURE PLANS AND USE OF PROCEEDS

From the Latest Practicable Date to 31 December 2021

Business strategies	Implementation plans	Use of proceeds <i>HK\$'million</i>
Reserving working capital to fulfil the requirements for being an Approved Specialist Contractor	Amount earmarked for satisfying the applicable working capital requirement which is to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts for being an Approved Specialist Contractor	22.0

BASES AND ASSUMPTIONS

The implementation plan set out by our executive Directors is based on the following bases and assumptions:

- there will be no impediments, legal or otherwise, which would materially disrupt or affect our proposed application for being an Approved Specialist Contractor on probationary status;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our executive Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no changes in the effectiveness of the licences, permits and qualifications obtained by our Group, where applicable;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" in this prospectus.

UNDERWRITING

Sole Bookrunner, Sole Lead Manager and Public Offer Underwriter

I Win Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering the Public Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other matters, the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to the satisfaction of certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriter has agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The Sole Lead Manager shall have the absolute discretion to terminate the arrangements set out in the Public Offer Underwriting Agreement by notice in writing given to our Company at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, if there shall develop, occur, exist or come into effect:

- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction;
- (ii) any adverse change (whether or not permanent) in local, national or international stock market conditions;
- (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise;
- (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction;

UNDERWRITING

- (v) any adverse change in the business or in the financial or trading position of our Group or otherwise;
- (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the Cayman Islands, the BVI, or any relevant jurisdiction;
- (vii) a general moratorium on commercial banking business activities in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction declared by the relevant authorities; or
- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, natural disaster or outbreak of infectious diseases, which in the reasonable opinion of the Sole Lead Manager:
 - (a) might be materially adverse to the business, financial condition or prospects of our Group taken as a whole; or
 - (b) might have a material adverse effect on the success of the Share Offer or might have the effect of making any part of the Public Offer Underwriting Agreement incapable of implementation or performance in accordance with its terms; or
 - (c) makes it inadvisable or inexpedient to proceed with the Share Offer.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, it comes to the notice of the Sole Lead Manager:

- (i) any matter or event showing any of the warranties to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been any breach of any of the warranties or any other provision of the Public Offer Underwriting Agreement which is considered, in the reasonable opinion of the Sponsor and the Sole Lead Manager, to be material in the context of the Public Offer;
- (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the reasonable opinion of the Sponsor and the Sole Lead Manager in the context of the Public Offer; or
- (iii) any statement contained in this prospectus and the Application Forms reasonably considered to be material by the Sponsor and the Sole Lead Manager which is discovered to be or becomes untrue, incorrect or misleading and in the reasonable opinion of the Sponsor and the Sole Lead Manager to be material in the context of the Public Offer; or

UNDERWRITING

- (iv) any event, act or omission which gives rise or is likely to give rise to any material liability of any of our Company, the executive Directors and our Controlling Shareholders pursuant to the indemnities contained in the Public Offer Underwriting Agreement, the Sole Lead Manager shall be entitled (but not bound) by notice in writing to our Company on or prior to such time to terminate the Public Offer Underwriting Agreement.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the GEM Listing Rules as soon as possible.

Undertakings given to the Stock Exchange pursuant to the GEM Listing Rules

Undertaking by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertaking by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that except pursuant to the Share Offer and the Offer Size Adjustment Option, it will not and will procure that the relevant registered holder(s) will not: (a) in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and (b) in the period of 12 months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company. Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholder has undertaken to the Stock Exchange and to our Company that, within the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 24 months from the date on which dealings in the Shares commence on the Stock Exchange, it/he will: (i) when it/he pledges or charges any Shares beneficially owned by it in favour of an authorised institution pursuant to Rule 13.19 of the GEM Listing Rules, immediately inform our Company of such pledge or charge

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together with the number of Shares so pledged or charged; and (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertaking by our Company

Except pursuant to the Capitalisation Issue, the Share Option Scheme, the Offer Size Adjustment Option and the Share Offer, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date, our Company has undertaken to each of the Sole Lead Manager, the Public Offer Underwriter and the Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Lead Manager (such consent not to be unreasonably withheld or delayed) and the Sponsor and unless in compliance with the requirements of the GEM Listing Rules:

- (i) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

UNDERWRITING

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders has also undertaken to each of our Company, the Sole Lead Manager, the Public Offer Underwriter and the Sponsor that, save as (i) pursuant to the Share Offer; or (ii) permitted under the GEM Listing Rules, without the prior written consent of the Sole Lead Manager (such consent not to be unreasonably withheld or delayed) and the Sponsor:

- (1) it will not, at any time during the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 30 months from the date on which dealings in the Shares commence on the Stock Exchange, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (2) without prejudice to the undertakings as referred to in paragraph (1) above, during the period commencing on the date by reference to which disclosure of its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 24 months from the Listing Date, it shall:
 - (i) when it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company, the Sponsor and the Sole Lead Manager of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by our Company, the Sponsor and/or the Sole Lead Manager; and

UNDERWRITING

- (ii) subsequent to the pledge or charge or creation of rights or encumbrances over the Shares (or interest therein) or other shares or interests as mentioned in subparagraph (i) above, when it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform our Company of such indications, and inform the Sponsor and the Sole Lead Manager as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriter, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriter will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

Under the Placing Underwriting Agreement, we intend to grant to the Placing Underwriter the Offer Size Adjustment Option, exercisable in whole or in part at one or more times, at the absolute discretion of the Sole Lead Manager on behalf of the Placing Underwriter. Please refer to the paragraph headed “Structure and Conditions of the Share Offer – Offer Size Adjustment Option” in the prospectus for more information.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Underwriting arrangements and expenses – Public Offer Underwriting Agreement – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph “Underwriting arrangements and expenses – Public Offer Underwriting Agreement – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

Commission and expenses

The Underwriter will receive a gross commission of 1.25% on the aggregate Offer Price of all the Offer Shares now being offered, out of which will, as the case may be, be applied to any sub-underwriting commissions and selling concession. The underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Share Offer are estimated to be approximately HK\$25.0 million assuming the Offer Size Adjustment Option is not exercised in aggregate

UNDERWRITING

(based on an Offer Price of HK\$0.65 per Offer Share being the mid-point of the indicative Offer Price range of HK\$0.6 per Offer Share to HK\$0.7 per Offer Share) and is paid or payable by our Company.

Underwriter's interests in our Company

Save for its interests and obligations under the Underwriting Agreements and save as disclosed in this prospectus, none of the Underwriter or any of its associates is interested beneficially or non-beneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

Sponsor's interest in our Company

Grande Capital Limited, being the Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Save for the advisory and documentation fees to be paid to Grande Capital Limited as the Sponsor to the Share Offer, its obligations under the Underwriting Agreements and any interests in securities that may be subscribed by it pursuant to the Share Offer, neither Grande Capital Limited nor any of its associates has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).

No director or employee of Grande Capital Limited who is involved in providing advice to our Company has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer).

No director or employee of Grande Capital Limited has a directorship in our Company or any other company in our Group.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

STRUCTURE OF THE SHARE OFFER

The Share Offer comprises:

- (i) the Public Offer of an aggregate of 10,000,000 Public Offer Shares (subject to reallocation as mentioned below) in Hong Kong; and
- (ii) the Placing of 90,000,000 Placing Shares and the Offer Size Adjustment Option (subject to reallocation as mentioned below).

Investors may apply for the Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for the Offer Shares under the Placing, but may not do both. The Offer Shares will represent approximately 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme). The number of Offer Shares to be offered under the Public Offer and the Placing, respectively, may be subject to reallocation as mentioned below.

CONDITIONS OF THE SHARE OFFER

The Share Offer is conditional upon, among other things:

- (i) the Listing Division granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be allotted and issued as mentioned in this prospectus, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined; and
- (iii) the obligations of the Underwriter under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Lead Manager (for itself and on behalf of the Underwriter)) and the Underwriting Agreements not being terminated in accordance with its terms, in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by our Company on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.maxicity.com.hk on the next business day following such lapse.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PUBLIC OFFER

Number of Shares initially offered

We are initially offering 10,000,000 Public Offer Shares at the Offer Price, representing 10% of the Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation of Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Public Offer will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and without taking into account Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any upon exercise of options as may be granted under the Share Option Scheme. The Public Offer is open to members of the public in Hong Kong as well as to institutional professional and other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" in this section.

Allocation

Allocation of the Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by applicants. Allocation of the Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 10,000,000 Public Offer Shares initially available for subscription will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The final Offer Price, the level of indication of interest in the Placing, level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Thursday, 12 December 2019 through a variety of channels as described in paragraph headed "How to apply for Public Offer Shares – Publication of results".

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are undersubscribed, the Sole Lead Manager has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Sole Lead Manager deems appropriate;
 - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 10,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 20,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 30,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
 - (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 30,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option); and
 - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 40,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 50,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (b) Where the Placing Shares are undersubscribed:
- (i) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriter would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer, then up to 10,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (a) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are fully subscribed or oversubscribed by less than 15 times under paragraph (a)(ii) above; or (b) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.6 per Offer Share) stated in this prospectus.

In addition, the Sole Lead Manager may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 6 of the GEM Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 20,000,000 Offer Shares) and the final Offer Price shall be fixed the low end of the indicative Offer Price range (i.e. HK\$0.6 per Offer Share).

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced. In addition, the Sole Lead Manager may in its sole and absolute discretion reallocate Offer Shares of the Placing to the Public Offer to satisfy valid applications under the Public Offer. The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Lead Manager.

THE PLACING

Number of the Offer Shares initially offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 90,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to the

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issue share capital immediately after the completion of the Share Offer and the Capitalisation Issue, but without taking into account Shares which may be issued upon exercise of the Offer Size Adjustment Option and options granted under the Share Option Scheme.

Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed by the Placing Underwriter. The Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a sizeable demand for such Placing Shares in Hong Kong. The Placing is subject to the Public Offer being unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the bookbuilding process described in the paragraph headed "Offer Price" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Lead Manager may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Sole Lead Manager so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

OFFER PRICE

Determination of the Offer Price

The Offer Price is to be determined on the Price Determination Date, which is expected to be on or about Friday, 6 December 2019 and in any event no later than Monday, 9 December 2019 by agreement between the Sole Lead Manager (for itself and on behalf of the Underwriter) and our Company.

The Offer Price will be not more than HK\$0.7 per Share and is expected to be not less than HK\$0.6 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Sole Lead Manager (for itself and on behalf of the Underwriter) may, based on the level of interest expressed by prospective investors during the book building process and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time not later than the morning of the last day for lodging applications under the Public Offer.

If the number of Offer Shares and/or the Offer Price range is reduced, our Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published on the website of our Company (www.maxicity.hk) and the website of the Stock Exchange (www.hkexnews.hk) in accordance with the GEM Listing Rules a notice of reduction in the number of Offer Shares and/or of the Offer Price range or to be announced in such manner as permitted under the GEM Listing Rules and agreed between our Company, the Sole Lead Manager and the Sole Sponsor. Upon issue of such notice, our revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter) will be fixed within such revised Offer Price range. Such notice shall also include confirmation or revision, as appropriate, of the working capital statement, offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction.

As soon as practicable after such reduction in the number of Offer Shares and/or of the Offer Price range, we will (a) issue a supplemental prospectus informing potential investors of, among other things, the changes to the Share Offer, including the change in the Offer Price and period of the Public Offer and the impact of such change on the sufficiency of working capital and use of proceeds; and (b) extend the offer period to allow potential investors to have sufficient time to consider and to confirm their applications under an opt-in approach, that is, to positively confirm their applications for the Offer Shares in light of the change in the Offer Price.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Lead Manager (for itself and on behalf of the Underwriter), will under no circumstances be set outside the indicative Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Share Offer, the Sole Lead Manager may, at its discretion, reallocate the number of Offer Shares to be offered under the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer. The Offer Shares to be offered under the Public Offer and the Placing Shares to be offered under the Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Lead Manager.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Before submitting applications for the Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Public Offer.

The final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allotment of the Public Offer Shares, are expected to be announced on Thursday, 12 December 2019 in the manner set out in the section headed “How to Apply for Public Offer Shares – 10. Publication of Results” of this prospectus.

Price payable on application

The Offer Price will not be more than HK\$0.7 per Offer Share and is expected to be not less than HK\$0.6 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK\$0.7 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK\$3,535.27 per board lot of 5,000 Offer Shares. If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.7 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

ANNOUNCEMENT OF OFFER PRICE AND BASIS OF ALLOCATION

Announcement of the final Offer Price, together with the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.maxicity.com.hk on Thursday, 12 December 2019.

OFFER SIZE ADJUSTMENT OPTION

In connection with the Share Offer, we are expected to grant the Offer Size Adjustment Option to the Placing Underwriter under the Placing Underwriting Agreement. The Offer Size Adjustment Option would be exercisable by the Sole Lead Manager (for itself and on behalf of the Placing Underwriter) on or before Thursday, 12 December 2019 at its sole and absolute discretion, to require our Company to allot and issue up to 15,000,000 additional new Shares, representing 15.0% of the Shares initially available for subscription under the Share Offer, on the same terms as those applicable to the Placing. Any such additional Shares may be issued to cover any excess demand in the Placing at the sole and absolute discretion of the Sole Lead Manager.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Placing Underwriter to meet any excess demand in the Placing. The Offer Size Adjustment Option will not be associated with any price stabilisation activities of the Shares in the secondary market after the Listing and will not be subject to

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

the Securities and Futures (Price Stabilising) Rules of the SFO. No purchase of the Shares in the secondary market will be affected to cover any excess demand in the Placing which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

Our Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date.

If the Offer Size Adjustment Option is exercised in full, the additional 15,000,000 Shares and the total Offer Shares (inclusive of the Shares which are issued pursuant to the exercise of the Offer Size Adjustment Option) will represent 3.6% and 27.7% of our Company's enlarged share capital immediately after completion of the Share Offer and the exercise of the Offer Size Adjustment Option, respectively. The additional net proceeds received from the exercise of the Offer Size Adjustment Option will be allocated pro rata in accordance to the allocations as disclosed in the paragraph headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus.

The dilution effect of the Offer Size Adjustment Option is set out below:

Number of Shares issued under the Share Offer before the exercise of the Offer Size Adjustment Option ("Original Subscribers")	Approximate percentage of total issued share capital held by the Original Subscribers before the exercise of the Offer size Adjustment Option	Number of Shares issued under the Share Offer after the exercise of the Offer Size Adjustment Option	Approximate percentage of total issued share capital held by the Original Subscribers after the exercise of the Offer Size Adjustment Option
100,000,000	25%	115,000,000	24.1%

Subject to the terms and conditions of the Placing Underwriting Agreement, the Placing Shares are expected to be fully underwritten by the Placing Underwriter.

The Underwriter or agents nominated by it on behalf of our Company will conditionally place the Placing Shares at the Offer Price plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy with professional, institutional and private investors anticipated to have a sizeable demand for the Placing Shares. Conditionally upon complying with the relevant rules and regulations, the Placing Shares can be placed with private investors in Hong Kong. Professional and/or institutional investors generally include dealers, brokers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on Friday, 13 December 2019. The Shares will be traded in board lots of 5,000 Shares each. The GEM stock code for the Shares is 8216.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interest.

Details of the Share Offer will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be allotted and issued pursuant to the Capitalisation Issue and Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the obligations of the Underwriter under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements; and
- (iii) the Offer Price having been determined and the execution of the Price Determination Agreement on or before the Price Determination Date,

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company on the websites of the Company and the Stock Exchange at www.maxicity.com.hk and www.hkexnews.hk respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to apply for Public Offer Shares – 12. Refund of application monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Lead Manager, and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Lead Manager may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- an associate (as defined in the GEM Listing Rules) of any of the above;
- a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. to 1:00 p.m. on Saturday, 30 November 2019, between 9:00 a.m. to 5:00 p.m. on Monday, 2 December 2019 to Wednesday, 4 December 2019, and between 9:00 a.m. to 12:00 noon on Thursday, 5 December 2019 from:

- (i) the following office of the Sole Lead Manager:

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

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- (ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

District	Branch name	Address
Hong Kong Island	188 Des Voeux Road Branch	Shop No. 7 on G/F, whole of 1/F - 3/F Golden Centre, 188 Des Voeux Road Central, Hong Kong
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon	Kwun Tong Branch	G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong
New Territories	Metroplaza Branch	Shop 473B, Level 4, Metroplaza, 223 Hing Fong Road, Kwai Fong, New Territories
	Tai Po Branch	G/F Shop No. 2, 23-25 Kwong Fuk Road, Tai Po Market, Tai Po

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 30 November 2019 until 12:00 noon on Thursday, 5 December 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "HORSFORD NOMINEES LIMITED – Maxicity Holdings PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Saturday, 30 November 2019 – 9:00 a.m. to 1:00 p.m.
- Monday, 2 December 2019 – 9:00 a.m. to 5:00 p.m.
- Tuesday, 3 December 2019 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 4 December 2019 – 9:00 a.m. to 5:00 p.m.
- Thursday, 5 December 2019 – 9:00 a.m. to 12:00 noon

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The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 5 December 2019, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the applications lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person of whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Lead Manager (or their agents or nominees), as agent of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sponsor, the Sole Lead Manager, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

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- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sponsor, the Sole Lead Manager, the Underwriter and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Sole Lead Manager and the Underwriter nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

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- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

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You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Lead Manager and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;
 - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

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- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sponsor, the Sole Lead Manager, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Lead Manager, the Underwriter and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public

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Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 2 December 2019 – 8:00 a.m. to 8:30 p.m.
Tuesday, 3 December 2019 – 8:00 a.m. to 8:30 p.m.
Wednesday, 4 December 2019 – 8:00 a.m. to 8:30 p.m.
Thursday, 5 December 2019 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input electronic application instructions from 7:00 a.m. on Sunday, 1 December 2019 until 12:00 noon on Thursday, 5 December 2019 (24 hours daily, except on 5 December 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 5 December 2019, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the application lists” in this section.

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

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Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Lead Manager, the Underwriter and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sponsor, the Sole Lead Manager and the Underwriter take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, 5 December 2019.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

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- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 5,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and conditions of the Share Offer – Offer Price” of this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

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in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 December 2019.

Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 5 December 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” of this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 12 December 2019 on our Company’s website at www.maxicity.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.maxicity.com.hk and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, 12 December 2019;
- from the designated results of allocations website at www.whiteform.com.hk/ results with a “search by ID” function on a 24-hour basis from 9:00 a.m. on Thursday, 12 December 2019 to midnight on Wednesday, 18 December 2019;
- by telephone enquiry line by calling +852 2153 1688 between 9:00 a.m. and 6:00 p.m. from Thursday, 12 December 2019 to Wednesday, 18 December 2019 on a Business Day (excluding Saturday, Sunday and Hong Kong Public Holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 12 December 2019 to Monday, 16 December 2019 at the designated receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and conditions of the Share Offer”.

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You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Lead Manager, and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

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(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Lead Manager believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 10,000,000 Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.7 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and conditions of the Share Offer – Conditions of the Share Offer" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 12 December 2019.

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13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 12 December 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 13 December 2019 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” of this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

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Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 12 December 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 12 December 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 12 December 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 12 December 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 12 December 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 12 December 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the sub-paragraph headed "Publication of results" above in this section on Thursday, 12 December 2019.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 12 December 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 12 December 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 12 December 2019.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purposes of incorporation in this prospectus.



30 November 2019

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MAXICITY HOLDINGS LIMITED AND GRANDE CAPITAL LIMITED

Introduction

We report on the historical financial information of Maxicity Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-41, which comprises the consolidated statements of financial position of the Group as at 31 December 2017 and 2018 and 31 May 2019, the statement of financial position of the Company as at 31 May 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017 and 2018 and the five months ended 31 May 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-41 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 November 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation and set out in notes 1.3 and 2.1, respectively to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investments Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1, respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's consolidated financial positions as at 31 December 2017 and 2018 and 31 May 2019, the Company's financial position as at 31 May 2019, and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1, respectively to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1, respectively to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Equity" issued by the HKICPA. A review consists of making inquiries, 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. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period

Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1, respectively to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which contains information about dividends declared by the Company's subsidiary and states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

No historical financial statements have been prepared for the Company since its date of incorporation.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

Chan Tze Kit

Practising Certificate Number: P05707

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December		Five months ended 31 May	
		2017	2018	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note (i))	(note (i))	(Unaudited) (note (i))	
Revenue	4	94,323	111,245	51,906	75,287
Cost of services		<u>(75,460)</u>	<u>(89,660)</u>	<u>(42,010)</u>	<u>(61,053)</u>
Gross profit		18,863	21,585	9,896	14,234
Other income, gains and losses	5	9	(3)	1	98
Administrative expenses		(2,230)	(2,374)	(867)	(1,663)
Listing expenses		-	(139)	-	(8,407)
Finance costs	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16)</u>
Profit before income tax	7	16,642	19,069	9,030	4,246
Income tax expense	8	<u>(2,717)</u>	<u>(2,975)</u>	<u>(1,325)</u>	<u>(2,029)</u>
Profit and total comprehensive income for the year/period		<u>13,925</u>	<u>16,094</u>	<u>7,705</u>	<u>2,217</u>
		HK cents	HK cents	HK cents (Unaudited)	HK cents
Earnings per share attributable to equity holders of the Company					
Basic and diluted	10	<u>4.64</u>	<u>5.36</u>	<u>2.57</u>	<u>0.74</u>

Note:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. See note 2.1.

Consolidated statements of financial position

	<i>Notes</i>	At 31 December 2017 <i>HK\$'000</i> <i>(note (i))</i>	2018 <i>HK\$'000</i> <i>(note (i))</i>	At 31 May 2019 <i>HK\$'000</i>
ASSETS AND LIABILITIES				
Non-current asset				
Property, plant and equipment	12	2,003	1,641	2,318
Current assets				
Contract assets	14	11,004	17,133	23,648
Trade and other receivables	13	4,735	8,932	11,093
Amounts due from directors	17	1,362	–	–
Cash and bank balances	15	11,180	12,434	10,929
		<u>28,281</u>	<u>38,499</u>	<u>45,670</u>
Current liabilities				
Trade and other payables	16	5,557	7,576	14,158
Lease liabilities	18	–	–	484
Amounts due to directors	17	–	4,931	1,342
Current tax liabilities		<u>3,951</u>	<u>883</u>	<u>2,892</u>
		<u>9,508</u>	<u>13,390</u>	<u>18,876</u>
Net current assets		<u>18,773</u>	<u>25,109</u>	<u>26,794</u>
Total assets less current liabilities		<u>20,776</u>	<u>26,750</u>	<u>29,112</u>
Non-current liabilities				
Lease liabilities	18	–	–	125
Deferred tax liabilities	19	<u>309</u>	<u>188</u>	<u>208</u>
		<u>309</u>	<u>188</u>	<u>333</u>
Net assets		<u>20,467</u>	<u>26,562</u>	<u>28,779</u>
EQUITY				
Share capital	20	1	1	–*
Reserves	21	<u>20,466</u>	<u>26,561</u>	<u>28,779</u>
Equity attributable to equity holders of the Company		<u>20,467</u>	<u>26,562</u>	<u>28,779</u>

Note:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. See note 2.1.

* The balance represented an amount less than HK\$1,000.

Statement of financial position of the Company

	<i>Note</i>	At 31 May 2019 <i>HK\$'000</i>
ASSETS AND LIABILITIES		
Non-current asset		
Investment in a subsidiary		<u>26,780</u>
Current assets		
Prepayments		2,868
Cash and bank balances		<u>–*</u>
		<u>2,868</u>
Current liabilities		
Accruals		943
Amount due to a subsidiary		<u>10,471</u>
		<u>11,414</u>
Net current liabilities		<u>(8,546)</u>
Net assets		<u><u>18,234</u></u>
EQUITY		
Share capital	20	–*
Reserves (<i>note</i>)		<u>18,234</u>
Total equity		<u><u>18,234</u></u>

Note: The movements of the Company's reserves are as follows:

	Capital reserve** <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issuance of shares upon the Reorganisation (note 20(ii))	26,780	–	26,780
Loss and total comprehensive expense for the period	<u>–</u>	<u>(8,546)</u>	<u>(8,546)</u>
Balance as at 31 May 2019	<u><u>26,780</u></u>	<u><u>(8,546)</u></u>	<u><u>18,234</u></u>

* The balance represented an amount less than HK\$1,000.

** Capital reserve of the Company represents the difference between the total equity of Kanic International over the nominal value of the Company's shares issued under the Reorganisation as described in note 20(ii).

Consolidated statements of changes in equity

	Share capital <i>HK\$'000</i> <i>(note 20)</i>	Capital reserve <i>HK\$'000</i> <i>(note 21)</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2017	1	–	6,541	6,542
Profit and total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>13,925</u>	<u>13,925</u>
Balance at 31 December 2017 and 1 January 2018	1	–	20,466	20,467
Profit and total comprehensive income for the year	–	–	16,094	16,094
Final dividends declared and approved <i>(note 9)</i>	<u>–</u>	<u>–</u>	<u>(9,999)</u>	<u>(9,999)</u>
Balance at 31 December 2018 and 1 January 2019	1	–	26,561	26,562
Issue of share capital <i>(note 20(i))</i>	–*	–	–	–*
Effect of group reorganisation <i>(note 20(ii))</i>	(1)	1	–	–
Profit and total comprehensive income for the period	<u>–</u>	<u>–</u>	<u>2,217</u>	<u>2,217</u>
Balance at 31 May 2019	<u>–*</u>	<u>1</u>	<u>28,778</u>	<u>28,779</u>
Balance at 1 January 2018	1	–	20,466	20,467
Profit and total comprehensive income for the period (unaudited)	<u>–</u>	<u>–</u>	<u>7,705</u>	<u>7,705</u>
Balance at 31 May 2018 (unaudited)	<u>1</u>	<u>–</u>	<u>28,171</u>	<u>28,172</u>

* The balance represented an amount less than HK\$1,000.

Consolidated statements of cash flows

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note (i))	(note (i))	(Unaudited) (note (i))	
Cash flows from operating activities				
Profit before income tax	16,642	19,069	9,030	4,246
Adjustments for:				
Depreciation	506	614	258	483
Loss/(gain) on disposal of property, plant and equipment	13	4	(1)	(97)
Interest expense for lease liabilities	–	–	–	16
Operating profit before working capital changes	17,161	19,687	9,287	4,648
Increase in contract assets	(5,642)	(6,129)	(5,269)	(6,515)
Increase in trade and other receivables	(1,916)	(2,197)	(45)	(1,196)
(Decrease)/increase in trade and other payables	(265)	2,019	2,249	6,582
Cash generated from operations	9,338	13,380	6,222	3,519
Income tax paid	–	(6,164)	–	–
<i>Net cash generated from operating activities</i>	<u>9,338</u>	<u>7,216</u>	<u>6,222</u>	<u>3,519</u>
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,258)	(306)	(187)	(316)
Proceeds from disposal of property, plant and equipment	16	50	46	98
(Advances to)/repayment from directors	(386)	(3,706)	79	–
<i>Net cash used in investing activities</i>	<u>(1,628)</u>	<u>(3,962)</u>	<u>(62)</u>	<u>(218)</u>
Cash flows from financing activities				
Listing expenses paid	–	(2,000)	–	(1,007)
Payment of lease liabilities	–	–	–	(210)
Repayment to the directors	–	–	–	(3,589)
<i>Net cash used in financing activities</i>	<u>–</u>	<u>(2,000)</u>	<u>–</u>	<u>(4,806)</u>
Net increase/(decrease) in cash and cash equivalents	7,710	1,254	6,160	(1,505)
Cash and cash equivalents at the beginning of year/period	3,470	11,180	11,180	12,434
Cash and cash equivalents at the end of year/period, represented by cash and bank balances	<u>11,180</u>	<u>12,434</u>	<u>17,340</u>	<u>10,929</u>

Note:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. See note 2.1.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 30 January 2019. The addresses of the Company's registered office and principal place of business are set out in the section headed "Corporate Information" of the Prospectus.

The Company is an investment holding company. The Group is principally engaged in undertaking slope works in Hong Kong.

The Company's immediate and ultimate holding company is Good Hill Investment Limited ("Good Hill"), a company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling shareholders of the Group are Mr. Sieh Shing Kee ("Mr. Sieh") and Mr. Ho Ka Ki ("Mr. Ho") (collectively, the "Controlling Shareholders").

1.2 Reorganisation

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Development and Reorganisation – Reorganisation" in the Prospectus, which was completed on 15 March 2019, the Company became the holding company of the companies now comprising the Group.

Upon the completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interest in the following subsidiaries:

Name	Place of incorporation	Date of incorporation	Particulars of issued and paid up capital	Effective interest held by the Group as at			Principal activities	
				31 December 2017	31 May 2018	31 May 2019		
Directly held by the Company								
Kanic International Limited ("Kanic International") <i>(note (a))</i>	The BVI	5 March 2019	US\$11	N/A	N/A	100%	100%	Investment holding
Indirectly held by the Company								
A-City Workshop Limited ("A-City") <i>(note (b))</i>	Hong Kong	31 August 2012	HK\$1,000	100%	100%	100%	100%	Undertaking slope works in Hong Kong

Notes:

- (a) No statutory financial statements have been prepared for Kanic International as it is newly incorporated and not subject to statutory audit requirements under relevant rules and regulations in the jurisdiction of incorporation.
- (b) The statutory financial statements for the years ended 31 December 2017 and 2018 were audited by Nortex (HK) CPA Limited.

1.3 Basis of presentation

Pursuant to the Reorganisation, which was completed by interspersing the investment holding companies between Mr. Sieh and Mr. Ho and A-City, the Company became the holding company of the companies now comprising the Group on 15 March 2019. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Historical Financial Information has been prepared as if the Company had always been the holding company of the Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2017 and 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”).

The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below.

The Historical Financial Information has been prepared under the historical cost basis. The Historical Financial Information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (HK\$'000), except where otherwise indicated.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3 below.

For the purpose of preparing and presenting the Historical Financial Information, all new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on 1 January 2019 (including HKFRS 9 and HKFRS 15), have been consistently applied by the Group throughout the Track Record Period except that the Group adopted HKFRS 16 on 1 January 2019. The accounting policies for leases under HKFRS 16 are set out in note 2.10 below.

Adoption of HKFRS 16 “Leases”

The Group has applied HKFRS 16 and the related consequential amendments to other HKFRSs on 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 16, the Group has elected to apply HKFRS 16 using the modified retrospective approach with the cumulative effect of initial application recognised at 1 January 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the consolidated statement of profit or loss and other comprehensive income over the lease period on a straight-line basis.

Upon adoption of HKFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred using effective interest method.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term.

In summary, the following adjustment was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2019):

	Carrying amount on 31 December 2018 under HKAS 17 HK\$'000	Adjustment HK\$'000	Carrying amount on 1 January 2019 under HKFRS 16 HK\$'000
Non-current asset			
Right-of-use assets, presented in property, plant and equipment	–	845	845
Current asset			
Trade and other receivables	8,932	(42)	8,890
Current liability			
Leases liabilities	–	474	474
Non-current liability			
Leases liabilities	–	329	329

When measuring lease liabilities for leases that were classified as operating leases under HKAS 17, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5.07%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	<i>HK\$'000</i>
Operating lease commitment at 31 December 2018 (note 22)	839
Less: discounting using incremental borrowing rate as at 1 January 2019	<u>(36)</u>
Lease liabilities recognised at 1 January 2019	<u><u>803</u></u>

The impact of adoption of HKFRS 16 using the modified retrospective approach on the consolidated statement of profit or loss and other comprehensive income for the five months ended 31 May 2019 is set out below.

	<i>HK\$'000</i>
Profit for the period	2,217
Depreciation of right-of-use assets	211
Interest expense on lease liabilities	16
Lease expenses	<u>(210)</u>
Profit for the period without adopting HKFRS 16 for illustrative purpose	<u><u>2,234</u></u>

New and amended standards not yet adopted by the Group

The Group have not early adopted the following new and amended standards, amendments and interpretations ("new and amended HKFRSs") which have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective date not yet determined

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that all the new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of such standards. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. Currently it has been considered that the adoption of them is unlikely to have a material impact on the Group's results of operations and financial position.

2.2 Basis of consolidation and combination

The Historical Financial Information incorporates the financial information of the Company and all its subsidiaries made up to respective year end dates during the Track Record Period.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.3 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the term of lease or 20%, whichever is shorter
Furniture and fixtures	20%
Plant and machinery	20%
Motor vehicles	33.33%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Right-of-use assets included the rights to use certain properties under leases which are measured at cost. The initial costs of right-of-use assets include the following:

- the amount of the initial measurement of lease liability; and

- lease payments made at or before the commencement date.

Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

2.5 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- FVTPL; or
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Expected credit losses ("ECL") of trade receivables and other financial assets measured at amortised cost is presented within "administrative expenses".

Subsequent measurement of financial assets

Financial assets that are debt investments are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in "other income, gains and losses" in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and bank balances, amounts due from directors and trade and other receivables fall into this category of financial instruments.

Classification and measurement of financial liabilities

The Group's financial liabilities include trade and other payables, amounts due to directors and lease liabilities.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

The accounting policies for lease liabilities are set out in note 2.10.

All interest-related charges are included in profit or loss.

Trade and other payables and amounts due to directors

Trade and other payables and amounts due to directors are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.6 Impairment of financial assets and contract assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the “ECL model”. Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month ECL” are recognised for the Stage 1 category while “lifetime ECL” are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in note 25.3.

2.7 Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying amount of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank.

2.9 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.13) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.6 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.5).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.13). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.5).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.10 Leases

Policies applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental is charged to profit or loss in the accounting period in which they are incurred.

Policies applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contain an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

On the consolidated statement of financial position, right-of-use assets that do not meet the definition of investment property have been included in property, plant and equipment, the same line as it presents the underlying assets of the same nature that it owns.

2.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, against the share capital account.

2.13 Revenue recognition

Revenue arises mainly from the contracts for the undertaking slope works services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue from undertaking slope works contracts

The Group provides slope works under contracts with customers. Such contracts are entered into before the services begin. Under the terms of the contracts, the Group is contractually required to perform the services at the customers' specified sites that the Group's performance creates and enhances an asset that the customer controls as the Group performs. Revenue from slope works is therefore recognised over time using output method, i.e. based on surveys of undertaking slope works completed by the Group to date as certified by architects, surveyors or other representatives appointed by the customers. In cases where the payment certificates do not take place as at the Group's reporting period-end dates or do not exactly cover periods up to the reporting period-end dates, the revenue for the period from the last payment certificates up to the reporting period-end dates is estimated based on the actual amounts of works performed by the Group during such period as indicated by the internal progress reports, the payment applications prepared by the Group and the next payment certificates, if any, issued by the Group's customers or other

representatives appointed by the Group's customers that takes place subsequent to the reporting period-end dates. The management of the Group considers that output method would faithfully depict the Group's performance towards complete satisfaction of these performance obligation under HKFRS 15.

The Group generally provides for warranties for repairs to any construction defects and does not provide extended warranties in its construction contract with customers. As such, most existing warranties are considered as assurance-type warranties under HKFRS 15, which are accounted for under HKAS 37.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

2.14 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

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 reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable profit, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable profit of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- profit or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.16 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

2.17 Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

- (b) the party is an entity and if any of the following conditions applies:
- (i) the entity and the Group are members of the same group.
 - (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) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of impairment of trade and other receivables (excluding prepayments), contract assets and amounts due from directors within the scope of ECL

The Group makes allowances on items subjects to ECL (including trade and other receivables (excluding prepayments), contract assets and amounts due from directors) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.6. As at 31 December 2017 and 2018 and 31 May 2019, the carrying amounts of trade and other receivables (excluding prepayments), contract assets and amounts due from directors amounted to HK\$3,488,000, HK\$4,824,000 and HK\$5,476,000, respectively (note 13), HK\$11,004,000, HK\$17,133,000 and HK\$23,648,000, respectively (note 14) and HK\$1,362,000, HK\$Nil and HK\$Nil, respectively (note 17).

No ECL in respect of trade and other receivables (excluding prepayments), contract assets and amounts due from directors was recognised during the Track Record Period.

4. REVENUE AND SEGMENT INFORMATION

4.1 REVENUE

The Group's principal activities are disclosed in note 1.1 of Section II to the Historical Financial Information. Revenue represents income arising on the provision of slope works to external customers. The Group's revenue is recognised over time.

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Provision of slope works				
Public sector projects	89,827	106,045	51,816	58,876
Private sector projects	4,496	5,200	90	16,411
	<u>94,323</u>	<u>111,245</u>	<u>51,906</u>	<u>75,287</u>

Remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2017 and 2018 and 31 May 2019.

	At 31 December 2017 HK\$'000
Remaining performance obligations expected to be satisfied during the year ending	
31 December 2018	94,068
31 December 2019	41,937
After 31 December 2019	<u>32,676</u>
	<u>168,681</u>
	At 31 December 2018 HK\$'000
Remaining performance obligations expected to be satisfied during the year ending	
31 December 2019	122,825
31 December 2020	<u>32,676</u>
	<u>155,501</u>

At 31 May
2019
HK\$'000

**Remaining performance obligations expected to be satisfied during the year/
period ending**

31 December 2019	105,724
31 December 2020	<u>48,263</u>
	<u><u>153,987</u></u>

4.2 Segment information

The chief operating decision-maker has been identified as the executive directors of the Company. The directors regard the Group's business of undertaking slope works as a single operating segment and reviews the overall results of the Group as a whole to make decision about resources allocation. Accordingly, no segment analysis information is presented.

Geographical information

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Information about major customers

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Tai Kam Construction Engineering Company Limited	70,077	34,578	22,248	N/A*
Fong On Construction Limited	13,135	33,770	15,538	31,078
Customer C	N/A*	28,556	8,043	21,499
Geotech Engineering Limited	N/A*	N/A*	N/A*	15,325
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* The corresponding revenue does not contribute over 10% of total revenue of the Group.

5. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
(Loss)/gain on disposal of property, plant and equipment	(13)	(4)	1	97
Sundry income	<u>22</u>	<u>1</u>	<u>–</u>	<u>1</u>
	<u>9</u>	<u>(3)</u>	<u>1</u>	<u>98</u>

6. FINANCE COSTS

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expense on lease liabilities	–	–	–	16
	<u>–</u>	<u>–</u>	<u>–</u>	<u>16</u>

7. PROFIT BEFORE INCOME TAX

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax is stated after charging:				
(a) Staff costs (including directors' emoluments (<i>note 11(a)</i>)) (<i>note</i>)				
– Salaries, wages and other benefits	28,286	32,767	14,976	18,883
– Contributions to defined contribution retirement plans	1,048	1,486	612	660
	<u>29,334</u>	<u>34,253</u>	<u>15,588</u>	<u>19,543</u>

Note: Staff costs (including directors' emoluments)

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of services	27,512	32,631	14,932	18,478
Administrative expenses	1,822	1,622	656	1,065
	<u>29,334</u>	<u>34,253</u>	<u>15,588</u>	<u>19,543</u>
(b) Other items				
Depreciation, included in:				
– Cost of services				
– owned used	430	566	238	249
– Administrative expenses				
– owned used	76	48	20	23
– right-of-use assets	–	–	–	211
	<u>506</u>	<u>614</u>	<u>258</u>	<u>483</u>
Auditor's remuneration	40	–	–	–
Subcontracting expenses (included in cost of services)	20,457	24,820	10,641	17,853
Machinery rental expenses (included in cost of services)	2,038	2,118	1,147	1,931
Operating lease charges in respect of leased premises	100	212	42	–
Listing expenses	–	139	–	8,407
	<u>–</u>	<u>139</u>	<u>–</u>	<u>8,407</u>

8. INCOME TAX EXPENSE

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>			
Provision for Hong Kong Profits Tax				
– Current tax	2,760	3,126	1,377	2,009
– Statutory tax concession	(30)	(30)	–	–
	2,730	3,096	1,377	2,009
Deferred tax (<i>note 19</i>)	(13)	(121)	(52)	20
	<u>2,717</u>	<u>2,975</u>	<u>1,325</u>	<u>2,029</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the year ended 31 December 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the 'Bill') which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

For the year ended 31 December 2018 and five months ended 31 May 2018 and 2019, Hong Kong Profits Tax of A-City, a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime.

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>			
Profit before income tax	<u>16,642</u>	<u>19,069</u>	<u>9,030</u>	<u>4,246</u>
Tax at Hong Kong Profits Tax rate of 16.5%	2,746	3,147	1,490	701
Tax effect of non-deductible expenses	1	23	–	1,493
Effect of two-tiered profits tax rates regime	–	(165)	(165)	(165)
Statutory tax concession	(30)	(30)	–	–
Income tax expense	<u>2,717</u>	<u>2,975</u>	<u>1,325</u>	<u>2,029</u>

9. DIVIDENDS

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>			
Dividends	<u>–</u>	<u>9,999</u>	<u>–</u>	<u>–</u>

No dividend has been paid or declared by the Company since its date of incorporation.

Prior to the Reorganisation, A-City has declared and appropriated 2017 final dividends to its then shareholders amounted to HK\$9,999,000 during the year ended 31 December 2018.

The rate and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the basis of presentation and preparation of the Historical Financial Information as disclosed in notes 1.3 and 2.1 of Section II above.

10. EARNINGS PER SHARE

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
			<i>(Unaudited)</i>	
Earnings for the purpose of calculating basic earnings per share (profit for the year/period) (<i>HK\$'000</i>)	13,925	16,094	7,705	2,217
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (<i>in thousand</i>)	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share during the years ended 31 December 2017 and 2018 and the five months ended 31 May 2018 and 2019 are retrospectively adjusted based on the Reorganisation and taking into account the effect arising from Capitalisation Issue as described in the section headed "History, Development and Reorganisation" in the Prospectus.

No diluted earnings per share is presented as there were no potential dilutive shares during the Track Record Period.

11. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2017				
<i>Executive directors:</i>				
Mr. Ho (<i>note (i)</i>)	–	696	18	714
Mr. Sieh (<i>note (ii)</i>)	–	696	18	714
	<u>–</u>	<u>1,392</u>	<u>36</u>	<u>1,428</u>
Year ended 31 December 2018				
<i>Executive directors:</i>				
Mr. Ho (<i>note (i)</i>)	–	696	18	714
Mr. Sieh (<i>note (ii)</i>)	–	696	18	714
	<u>–</u>	<u>1,392</u>	<u>36</u>	<u>1,428</u>
Five months ended 31 May 2018 (unaudited)				
<i>Executive directors:</i>				
Mr. Ho (<i>note (i)</i>)	–	290	8	298
Mr. Sieh (<i>note (ii)</i>)	–	290	8	298
	<u>–</u>	<u>580</u>	<u>16</u>	<u>596</u>
Five months ended 31 May 2019				
<i>Executive directors:</i>				
Mr. Ho (<i>note (i)</i>)	–	290	8	298
Mr. Sieh (<i>note (ii)</i>)	–	290	8	298
	<u>–</u>	<u>580</u>	<u>16</u>	<u>596</u>

Notes:

- (i) Mr. Ho was a director of the Company's subsidiary during the Track Record Period and was appointed as a director of the Company on 30 January 2019 and redesignated as an executive director of the Company in February 2019.
- (ii) Mr. Sieh was a director of the Company's subsidiary during the Track Record Period and was appointed as a director of the Company on 30 January 2019 and redesignated as an executive director of the Company in February 2019.
- (iii) The emoluments shown above were for the services in connection with the management of the affairs of the Group during the Track Record Period.

- (iv) Mr. Tso Ping Cheong Brian, Mr. Kwong Che Sing and Mr. Ling Siu Tsang were appointed as independent non-executive directors of the Company on 25 November 2019. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any directors' remuneration in the capacity of independent non-executive directors.
- (v) For the years ended 31 December 2017 and 2018 and five months ended 31 May 2018 and 2019, no emoluments were paid by the Group to a director as an inducement to join or upon joining the Group or as compensation for loss of office as a director or management of any members of the Group.
- (vi) For the years ended 31 December 2017 and 2018 and five months ended 31 May 2018 and 2019, there was no arrangement under which a director has waived or agreed to waive any emolument.

(b) Five highest paid individuals

For the years ended 31 December 2017 and 2018 and five months ended 31 May 2018 and 2019, the five individuals whose emoluments were the highest in the Group included two, two, two (unaudited) and two directors respectively.

Details of the emoluments of the remaining three highest paid individuals are as follows:

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, fee and allowances	1,258	1,579	800	847
Retirement scheme contributions	41	50	30	22
	<u>1,299</u>	<u>1,629</u>	<u>830</u>	<u>869</u>

The emoluments fell within the following bands:

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
			(Unaudited)	
Emolument bands:				
HK\$ Nil – HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

For the years ended 31 December 2017 and 2018 and five months ended 31 May 2018 and 2019, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office as a director or management of any members of the Group.

12. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2017						
Cost	-	-	1,012	300	569	1,881
Accumulated depreciation	-	-	(372)	(5)	(224)	(601)
Net book amount	-	-	640	295	345	1,280
Year ended 31 December 2017						
Opening net book amount	-	-	640	295	345	1,280
Additions	-	-	451	730	77	1,258
Disposals	-	-	-	-	(29)	(29)
Depreciation	-	-	(242)	(90)	(174)	(506)
Closing net book amount	-	-	849	935	219	2,003
At 31 December 2017 and 1 January 2018						
Cost	-	-	1,463	1,030	600	3,093
Accumulated depreciation	-	-	(614)	(95)	(381)	(1,090)
Net book amount	-	-	849	935	219	2,003
Year ended 31 December 2018						
Opening net book amount	-	-	849	935	219	2,003
Additions	-	95	24	-	187	306
Disposals	-	-	-	-	(54)	(54)
Depreciation	-	(6)	(260)	(206)	(142)	(614)
Closing net book amount	-	89	613	729	210	1,641
At 31 December 2018 and 1 January 2019						
Cost	-	95	1,487	1,030	672	3,284
Accumulated depreciation	-	(6)	(874)	(301)	(462)	(1,643)
Net book amount	-	89	613	729	210	1,641
Five months ended 31 May 2019						
Opening net book amount	-	89	613	729	210	1,641
Impact on initial application of HKFRS 16 (note 2.1)	845	-	-	-	-	845
Additions	-	-	287	-	29	316
Disposals	-	-	-	-	(1)	(1)
Depreciation	(211)	(8)	(125)	(86)	(53)	(483)
Closing net book amount	634	81	775	643	185	2,318
At 31 May 2019						
Cost	845	95	1,774	1,030	525	4,269
Accumulated depreciation	(211)	(14)	(999)	(387)	(340)	(1,951)
Net book amount	634	81	775	643	185	2,318

The Group has obtained the right to use a premises through the tenancy agreement. The lease typically run on an initial period of 2 years. The Group makes fixed payments during the contract period.

As at 31 May 2019, the carrying amounts of the Group's right-of-use assets in relation to the premises are HK\$634,000.

13. TRADE AND OTHER RECEIVABLES

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	2,725	3,975	3,928
Other receivables	316	2	–
Prepayments	1,247	4,108	5,617
Utility and other deposits	447	847	1,548
	<u>4,735</u>	<u>8,932</u>	<u>11,093</u>

The directors of the Company consider that the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

Trade receivables

The Group grants credit terms to customers for a period of 30 to 60 days from the invoice date for trade receivables. For settlement of trade receivables from provision of undertaking slope works, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management.

Based on the invoice dates, the ageing analysis of the trade receivables was as follows:

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	2,725	3,856	3,928
91 – 365 days	–	119	–
	<u>2,725</u>	<u>3,975</u>	<u>3,928</u>

The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime ECL provision for all trade receivables. As at 31 December 2017 and 2018 and 31 May 2019, the ECL rate for trade receivables are 0.26%, 0.26% and 0.15% respectively. As the ECL rates are close to be zero, no provision has been made during the Track Record Period accordingly.

Other receivables

No amounts in relation to other receivables were past due at 31 December 2017 and 2018 and 31 May 2019. As at 31 December 2017 and 2018 and 31 May 2019, the ECL rate for other receivables are 1.87%, 1.87% and nil respectively. As the ECL rates are considered as insignificant, no provision has been made during the Track Record Period accordingly.

Prepayments

As at 31 December 2017 and 2018 and 31 May 2019, prepayments mainly comprised of: (1) prepaid listing expenses amounted to HK\$Nil, HK\$1,861,000 and HK\$2,868,000 respectively; and (2) prepaid expenses for site insurance and machinery rentals amounted to HK\$866,000, HK\$2,193,000 and HK\$2,739,000 respectively.

14. CONTRACT ASSETS

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Unbilled revenue	10,605	15,927	21,252
Retention receivables	399	1,206	2,396
	<u>11,004</u>	<u>17,133</u>	<u>23,648</u>

Contract assets represent the Group's right to considerations from customers for the provision of undertaking slope work, which arise when: (i) the Group completed the relevant services under such contracts but yet certified by architects, surveyors or other representatives appointed by customers; and (ii) the customers withhold certain certified amounts payable to the Group as retention money to secure the due performance of the contracts during the defect liability period of construction projects. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to the customer. As at 31 December 2017 and 2018 and 31 May 2019, the ECL rate for contract assets are 0.26%, 0.26% and 0.15% respectively. As the ECL rates are close to be zero, no provision has been made during the Track Record Period accordingly.

Changes of contract assets during the Track Record Period were mainly due to: (1) changes in retention receivables as a result of an increase in number of ongoing and completed contracts under the defect liability period during the Track Record Period; and (2) changes in number of contract works that the relevant services were completed but yet been certified at the end of each reporting period.

Movements in the contract assets balances during the Track Record Period are as follows:

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Transfers from contract assets recognised at the beginning of the year to trade receivables	<u>5,205</u>	<u>10,605</u>	<u>15,779</u>

No contract liability was noted during the Track Record Period.

15. CASH AND BANK BALANCES

Cash at banks earns interest at floating rates based on daily bank deposit rates during the Track Record Period.

16. TRADE AND OTHER PAYABLES

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Trade payables (<i>note (i)</i>)	5,354	7,226	12,514
Accruals and other payables	<u>203</u>	<u>350</u>	<u>1,644</u>
	<u>5,557</u>	<u>7,576</u>	<u>14,158</u>

Notes:

- (i) The Group is granted by its suppliers a credit period ranging from 0 to 45 days. The ageing analysis of trade payables based on the invoice date is as follows:

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	5,226	7,192	11,808
31 – 60 days	52	–	634
61 – 90 days	74	7	–
91 – 365 days	2	27	72
	<u>5,354</u>	<u>7,226</u>	<u>12,514</u>

- (ii) All amounts are short-term and hence, the carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair value.

17. AMOUNTS DUE FROM/(TO) DIRECTORS

Particulars of amounts due from/(to) directors are as follows:

	At 31 December		At 31 May	Maximum amount outstanding during the five months ended		
	2017	2018	2019	the year ended 31 December		31 May
	HK\$'000	HK\$'000	HK\$'000	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Ho	1,246	(2,247)	(459)	1,359	2,905	N/A
Mr. Sieh	116	(2,684)	(883)	232	2,316	N/A
	<u>1,362</u>	<u>(4,931)</u>	<u>(1,342)</u>			

The amounts due from/(to) directors are non-trade in nature. The amounts due are unsecured, non-interest bearing and repayable on demand. The fair values approximate their carrying amounts at each of the reporting dates. All outstanding balance of amounts due to directors will be settled before Listing.

18. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	At 31 May 2019 <i>HK\$'000</i>
Total minimum lease payments:	
Due within one year	503
Due after one year but within two years	<u>126</u>
	629
Less: Future finance charges	<u>(20)</u>
Present value of lease liabilities	<u><u>609</u></u>
Present value of minimum lease payments:	
Due within one year	484
Due after one year but within two years	<u>125</u>
	609
Less: Portion due within one year included under current liabilities	<u>(484)</u>
Portion due after one year included under non-current liabilities	<u><u>125</u></u>

19. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% in Hong Kong for the year ended 31 December 2017 and using the average tax rates that are expected to apply to the taxable profit of the year in which the temporary differences are expected to be utilised for the year ended 31 December 2018 and five months ended 31 May 2019.

The movement in deferred tax liabilities during the Track Record Period and recognised in the consolidated statements of the financial position as at each reporting date are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>
As at 1 January 2017	322
Credited to profit or loss (<i>note 8</i>)	<u>(13)</u>
As at 31 December 2017 and 1 January 2018	309
Credited to profit or loss (<i>note 8</i>)	<u>(121)</u>
As at 31 December 2018 and 1 January 2019	188
Charged to profit or loss (<i>note 8</i>)	<u>20</u>
As at 31 May 2019	<u><u>208</u></u>

20. SHARE CAPITAL

For the purpose of the preparation of the consolidated statements of financial position, the balance of share capital at 31 December 2017 and 2018 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group prior to the Reorganisation.

Movements of the authorised and issued share capital of the Company for the period from 30 January 2019 (date of incorporation of the Company) to 31 May 2019 are as follows:

	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.01 each		
Upon incorporation and as at 31 May 2019	<u>38,000,000</u>	<u>380</u>
Issued and fully paid:		
Upon incorporation (<i>note (i)</i>)	1	—*
Issuance of shares upon the Reorganisation (<i>note (ii)</i>)	<u>2,000</u>	<u>—*</u>
As at 31 May 2019	<u><u>2,001</u></u>	<u><u>—*</u></u>

* The balances represented an amount less than HK\$1,000

Notes:

- (i) On 30 January 2019, the Company issued and allotted one share, credited as fully paid at par, to the initial subscriber, which was then transferred to Good Hill on the same date for a consideration of HK\$0.01.
- (ii) On 15 March 2019, each of Mr. Ho and Mr. Sieh transferred 500 shares of A-City, in aggregate representing the entire issued share capital of A-City, to Kanic International for a consideration of HK\$26,780,000, which was determined based on the net asset value of A-City as at 31 December 2018 and settled by (a) Kanic International by issuing and allotting 10 shares, credited as fully paid at a premium, to the Company; (b) the Company by issuing and allotting 2,000 shares, credited as fully paid at a premium, to Good Hill; and (c) Good Hill by issuing and allotting one share, credited as fully paid at a premium, to each of Mr. Ho and Mr. Sieh.
- (iii) On 25 November 2019, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares to HK\$10,000,000 divided into 1,000,000,000 shares by the creation of additional 962,000,000 new shares pursuant to a written resolution passed by the sole shareholder of the Company.

21. RESERVES

Capital reserve of the Group as at 31 May 2019 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group.

22. OPERATING LEASE COMMITMENTS*As lessee*

As at 31 December 2017 and 2018, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	At 31 December	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	91	503
In the second to fifth years	—	336
	<u>91</u>	<u>839</u>

The Group is the lessee in respect of premises under operating leases. The leases typically run for an initial period of two years. The leases do not include contingent rentals. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2.1). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statements of financial position in accordance with the policies set out in note 2.10, and the details regarding the Group's future lease payments are disclosed in note 18.

23. RELATED PARTY TRANSACTIONS

In addition to the balances and transactions detailed elsewhere in the Historical Financial Information, the Group had the following related party transactions during the Track Record Period.

(a) Balances with related parties

Details of the balances with related parties are disclosed in note 17.

(b) Key management personnel remuneration

The emoluments of the directors and senior management of the Group, who represent the key management personnel during the Track Record Period are as follows:

	Year ended 31 December		Five months ended 31 May	
	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Unaudited)</i>	
Salaries, fee and allowances	1,392	1,392	580	1,155
Retirement benefit scheme contributions	36	36	16	30
	<u>1,428</u>	<u>1,428</u>	<u>596</u>	<u>1,185</u>

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Lease liabilities <i>HK\$'000</i>
At 31 December 2018	–
Impact on initial application of HKFRS 16 (<i>note 2.1</i>)	<u>803</u>
At 1 January 2019	803
Change from financing cash flows:	
Payment of lease liabilities	(210)
Other change:	
Interest expense for lease liabilities	<u>16</u>
At 31 May 2019	<u><u>609</u></u>

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks include interest rate risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the board of directors.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

25.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of financial assets and liabilities:

	At 31 December	2018	At 31 May
	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets			
At amortised cost:			
– Trade and other receivables	3,488	4,824	5,476
– Amounts due from directors	1,362	–	–
– Cash and bank balances	<u>11,180</u>	<u>12,434</u>	<u>10,929</u>
	<u><u>16,030</u></u>	<u><u>17,258</u></u>	<u><u>16,405</u></u>

	At 31 December		At 31 May
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Financial liabilities			
At amortised cost:			
– Trade and other payables	5,557	7,576	14,158
– Lease liabilities	–	–	609
– Amounts due to directors	–	4,931	1,342
	<u>5,557</u>	<u>12,507</u>	<u>16,109</u>

25.2 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 rates.

The exposure to interest rate risk for the Group's bank balances is considered immaterial.

25.3 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. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk on recognised financial assets and contract assets is limited to the carrying amount at end of each reporting period.

In respect of trade and other receivables and contract assets, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable and contract asset balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

At 31 December 2017 and 2018 and 31 May 2019, the Group has concentration of credit risk as 89% and 100%, 57% and 100%, and 100% and 100% of the total trade receivables (note 13) were due from the Group's largest trade debtor and five largest trade debtors respectively. The aggregate amounts of trade receivables from these trade debtors amounted to HK\$2,424,000 and HK\$2,725,000, HK\$2,247,000 and HK\$3,975,000, and HK\$3,928,000 and HK\$3,928,000 of the Group's total trade receivables at 31 December 2017 and 2018 and 31 May 2019 respectively.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Internal credit rating, actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations, actual or expected significant changes in the operating results of the borrower and significant changes in the expected performance and behavior of the borrower including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower are indicators to be incorporated.

The Group accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, the Group considers historical elements and forward looking elements.

(i) Trade receivables and contract assets

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all trade receivables and contract assets.

Assessed lifetime ECL rate of contract assets and trade receivables is close to be zero as there are no recent history of default and continuous payment received. Based on historical and forward looking elements of the Group, it was determined that no loss allowance provision is necessary in respect of these balances as there has not been a significant change in credit quality of the customers.

(ii) Other financial assets at amortised cost

As at 31 December 2017 and 2018 and 31 May 2019, the Group expects that the credit risk associated with other receivables and amounts due from directors are considered to be low, since the majority of these balances is due from counterparties having a strong capacity to meet its contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method. Thus no loss allowance provision was recognised during the Track Record Period.

The credit risks on cash and bank balances are considered to be insignificant because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

25.4 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, amounts due to directors and lease liabilities, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

The analysis set out the remaining contractual maturity based on undiscounted cash flow of the Group's financial liabilities at the reporting date.

	On demand or within 1 year HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2017			
Trade and other payables	<u>5,557</u>	<u>5,557</u>	<u>5,557</u>
At 31 December 2018			
Trade and other payables	7,576	7,576	7,576
Amounts due to directors	<u>4,931</u>	<u>4,931</u>	<u>4,931</u>
	<u>12,507</u>	<u>12,507</u>	<u>12,507</u>

	On demand or within 1 year <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Total contractual undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
At 31 May 2019				
Trade and other payables	14,158	–	14,158	14,158
Lease liabilities	503	126	629	609
Amounts due to directors	<u>1,342</u>	<u>–</u>	<u>1,342</u>	<u>1,342</u>
	<u>16,003</u>	<u>126</u>	<u>16,129</u>	<u>16,109</u>

25.5 Fair value measurement

The carrying amounts of the Group's financial assets and liabilities are not materially different from their fair values at the end of each of the Track Record Period due to their short maturities.

26. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain capital structure in order to minimise the costs of capital, support its business and maximise shareholders' value.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings (including lease liabilities) net of cash and bank balance. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, share buyback, issue new shares and raise new debts.

The Group's net debt to equity ratio at each reporting date was as follows:

	At 31 December 2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	At 31 May 2019 <i>HK\$'000</i>
Borrowings	–	–	609
Less: cash and bank balances	<u>(11,180)</u>	<u>(12,434)</u>	<u>(10,929)</u>
Net cash	<u>(11,180)</u>	<u>(12,434)</u>	<u>(10,320)</u>
Total equity	<u>20,467</u>	<u>26,562</u>	<u>28,779</u>
Net debt to equity ratio	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

27. POTENTIAL LITIGATION

As at 31 December 2017 and 2018 and 31 May 2019, the Group has been involved in certain potential litigations and claims against the Group regarding the employees' compensation and common law personal injury claim as detailed in the section headed "Business – Litigation and claims" in the Prospectus. The directors are of the opinion that the potential litigations and claims are not expected to have a material impact on the Group's Historical Financial Information, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the Historical Financial Information.

28. PERFORMANCE GUARANTEE

On March 2019, performance bond of HK\$2,000,000 was issued by an insurance company in favour of the Group's customer as security for the due performance and observance of the Group's obligations under the contract entered into between the Group and its customer.

The performance guarantee was secured by (i) personal guarantees provided by the Controlling Shareholders; and (ii) a pledged deposit in the sum of HK\$600,000 (as included in utility and other deposits in note 13) placed by A-City with the insurance company. The personal guarantees provided by the Controlling Shareholders will be released and replaced by a corporate guarantee by the Company upon Listing.

III. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 May 2019:

- (a) On June 2019, A-City as a borrower entered into a facility agreement offered by a licensed bank in Hong Kong as lender in relation to a credit facility with a total loan amount of up to HK\$10,000,000. The facility was secured by (i) personal guarantees of Mr. Ho and Mr. Sieh, all of which will be replaced by the corporate guarantee of the Company upon Listing; and (ii) a bank deposit of HK\$5,000,000 placed by A-City with the licensed bank.
- (b) On July 2019, three performance bonds totaling of HK\$7,000,000 were issued by an insurance company in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and its customers. The performance guarantees are secured by (i) personal guarantees provided by the Controlling Shareholders; and (ii) pledged deposits in the sum of HK\$2,500,000 placed by A-City with the insurance company. The personal guarantees provided by the Controlling shareholders will be released and replaced by a corporate guarantee by the Company upon Listing.

IV. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 May 2019.

The information set forth in this appendix does not form part of the Accountants' Report on the Historical Financial Information of the Group for each of the years ended 31 December 2017 and 2018 and the five months ended 31 May 2019 prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I of this prospectus (the "Accountants' Report"), 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 prospectus and the Accountants' Report set forth in Appendix I of this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Share Offer on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2019, as if the Share Offer had taken place on 31 May 2019.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to equity holders of the Company had the Share Offer been completed as at 31 May 2019 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2019 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2019	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on the Offer Price of HK\$0.6 per Share	<u>28,779</u>	<u>43,796</u>	<u>72,575</u>	<u>0.18</u>
Based on the Offer Price of HK\$0.7 per Share	<u>28,779</u>	<u>53,296</u>	<u>82,075</u>	<u>0.21</u>

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2019 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 May 2019 amounting to approximately HK\$28,779,000.
- (2) The estimated net proceeds from the Share Offer are based on 100,000,000 Offer Shares at the Offer Price of HK\$0.6 and HK\$0.7 per Share, being low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other listing expenses expected to be incurred by the Group subsequent to 31 May 2019.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2019 per Share is calculated based on 400,000,000 Shares, being the number of Shares expected to be in issue immediately following the Capitalisation Issue and the Share Offer had it been completed on 31 May 2019. It does not take into account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Offer Size Adjustment Option or the Share Option Scheme.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2019 to reflect any trading results or other transactions of the Group entered into subsequent to 31 May 2019.

The following is the text of the assurance report received from Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION



30 November 2019

TO THE DIRECTORS OF MAXICITY HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Maxicity Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 May 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 30 November 2019 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Share Offer (as defined in the Prospectus) on the GEM of The Stock Exchange of Hong Kong Limited on the Group's financial position as at 31 May 2019 as if the Share Offer had taken place at 31 May 2019. As part of this process, information about the Group's financial position as at 31 May 2019 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed placing and public offer of the shares of the Company at 31 May 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12
28 Hennessy Road
Wanchai
Hong Kong

Chan Tze Kit
Practising Certificate No.: P05707

quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by 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.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons,

at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past 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.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the

contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or 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 Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so

in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid

up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be

carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the

Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 12 February 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

- (a) Our Company was incorporated in the Cayman Islands as an exempted limited liability company under the Companies Law on 30 January 2019. Our Company has established our principal place of business in Hong Kong at Room 2302-2303, 23/F, Omega Plaza, 32-34A Dundas Street, Mongkok, Hong Kong and has been registered as a non-Hong Kong company under Division 2 in Part 16 of the Companies Ordinance. Mr. Ho Ka Ki (何家淇先生) of Flat A, 12/F, Nam Hoi Mansion, Taikoo Shing, Quarry Bay, Hong Kong and Mr. Sieh Shing Kee (謝城基先生) of Flat D, 6/F, Mei Foo Sun Chuen, 3 Humbert Street, Meifoo Sun Chuen, Kowloon, Hong Kong have been authorised to accept on behalf of our Company service of process and any notices required to be served on our Company.
- (b) As our Company was incorporated in the Cayman Islands, our corporate structure, the Memorandum and the Articles are subject to the Cayman Islands law. A summary of the relevant provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of incorporation was HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of incorporation:

- (a) On 30 January 2019, our Company allotted and issued one Share, credited as fully paid at par, to Ms. Sharon Pierson, an Independent Third Party, as the initial subscriber; and the subscriber Share was transferred to Good Hill at the consideration of HK\$0.01 on the same day;
- (b) On 15 March 2019, our Company allotted and issued 2,000 Shares, credited as fully paid at a premium, to Good Hill, as part of the consideration for the transfer of the entire issued share capital of A-City Workshop from Mr. Ho and Mr. Sieh as transferors to Kanic International as transferee. For details, please refer to the paragraph headed “History, Development and Reorganisation – Reorganisation” in this prospectus;
- (c) On 25 November 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$10,000,000 divided into 1,000,000,000 Shares by the creation of additional 962,000,000 new Shares pursuant to a written resolution passed by our sole Shareholder as referred to under the paragraph headed “4. Written resolutions of our sole Shareholder” in this appendix.

As at the Latest Practicable Date, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares. Assuming that the Share Offer becomes unconditional, the Shares under the Capitalisation Issue are issued and the Offer Size Adjustment Option has been exercised in full, immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$4,150,000 divided into 415,000,000 Shares fully paid or credited as fully paid, and 585,000,000 Shares will remain unissued.

Other than the Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any Shares out of the authorised but unissued share capital of our Company.

3. Changes in the share capital of our subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this prospectus.

Other than the alterations described in the section headed "History, Development and Reorganisation" in this prospectus, there has been no change in the share capital of our Company's subsidiaries within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our sole shareholder

Pursuant to the written resolutions of our sole Shareholder passed on 25 November 2019:

- (a) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$10,000,000 divided into 1,000,000,000 Shares by the creation of additional 962,000,000 new Shares which shall, when issued and paid, rank *pari passu* in all respects with the existing issued Shares (other than participation in the Capitalisation Issue);
- (b) conditional upon the conditions stated under the paragraph headed "Structure and Conditions of the Share Offer – Conditions of the Share Offer" of this prospectus being fulfilled or waived:
 - (i) the Share Offer on the terms and conditions of this prospectus and the Application Forms at the Offer Price was approved and our Directors were authorised to allot and issue such number of new Shares;
 - (ii) conditional further on the Listing Division granting the listing of, and the permission to deal in, such number of Shares which may be allotted and issued upon the exercise in full of the options which may be granted under the Share Option Scheme, the Share Option Scheme was

approved and adopted, and our Directors or any committee of our Board were authorised, at their sole discretion, to make such further changes to the Share Option Scheme as requested by the Stock Exchange and which they may consider necessary, desirable or expedient in connection with the grant of options to subscribe for the Shares under the Share Option Scheme up to the limits as referred to in the Share Option Scheme and to allot, issue and deal with the Shares under the exercise of any options which may be granted under the Share Option Scheme and to take all such action as they may consider necessary, desirable or expedient to implement the Share Option Scheme;

- (iii) subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to allot and issue a total of 299,997,999 Shares, credited as fully paid at par, to our Shareholder whose name appears on the register of members of our Company at 5:00 p.m. on 12 December 2019 (or such other time as our Directors may direct) by way of capitalisation of a sum of HK\$2,999,979.99 standing to the credit of the share premium account of our Company, and that the Shares to be allotted and issued, as nearly as possible, without involving fractions, and such Shares to rank *pari passu* in all respects with the then existing issued Shares;
- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which might require the Shares to be allotted and issued or dealt with subject to the requirement that the total number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (i) a Rights Issue (as defined below); (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Articles; (iii) any specific authority granted by our Shareholders in general meeting; or (iv) the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme, shall not exceed 20% of the total number of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue;
- (v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company might be listed and which was recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as would represent up to 10% of the total number of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue,

excluding any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme; and

- (vi) the general unconditional mandate as mentioned in paragraph 4(b)(iv) above was extended by the addition to the total number of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under such general mandate of an amount representing the aggregate par value of the Shares purchased by our Company under the mandate to repurchase Shares as referred to in paragraph 4(b)(v) above;

for the purpose of paragraph 4(b)(iv) above, “Rights Issue” means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for the Shares open for a period fixed by our Directors to our Shareholders whose names appear on the register of members of our Company (and, where appropriate, to holders of other securities of our Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or, where appropriate, such other securities) (subject in all cases to such exclusions or other arrangements as our Directors may consider necessary, desirable or expedient (but in compliance with the relevant GEM Listing Rules) in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to our Company);

each of the general mandates referred to in paragraphs 4(b)(iv) and 4(b)(v) above will remain in effect until the earliest of (i) the conclusion of our Company’s next annual general meeting; (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting;

- (c) our Directors were re-elected; and
- (d) the Memorandum was adopted with immediate effect and the Articles were approved and conditionally adopted with effect from the Listing Date.

5. Reorganisation

In preparation for the Share Offer, we have undertaken the Reorganisation to rationalise the business and structure of our Group, details of which are set out in the paragraph headed “History, development and Reorganisation – Reorganisation” in this prospectus.

6. Repurchase of our own securities

This paragraph includes information relating to the repurchase of Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements

The GEM Listing Rules permit our Shareholders to grant to our Directors the general mandate to repurchase Shares which are listed on the Stock Exchange. The general mandate to repurchase Shares is required to be given by way of an ordinary resolution passed by our Shareholders in general meeting.

(b) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 25 November 2019, our Directors were granted the general mandate to repurchase up to 10% of the total number of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our securities may be listed and which was recognised by the SFC and the Stock Exchange for this purpose. The general mandate to repurchase Shares will expire at the earliest of (i) the conclusion of our Company's next annual general meeting, (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; or (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting (the "**Relevant Period**").

(c) Source of funds

Repurchase of Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles and the applicable laws of the Cayman Islands. We may not repurchase Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the GEM Listing Rules. Subject to the foregoing, we may make repurchases out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of our Shares to be repurchased must be out of profits of our Company or out of the share premium account of our Company. Subject to the Companies Law, a repurchase may also be made out of capital.

(d) Reasons for repurchases

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(e) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules, the Companies Law and other applicable laws of the Cayman Islands. On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the general mandate to repurchase Shares were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) Share capital

The exercise in full of the current general mandate to repurchase Shares, on the basis of 400,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 40,000,000 Shares being repurchased by us during the Relevant Period.

(g) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they shall exercise the general mandate to repurchase Shares in accordance with the GEM Listing Rules and the laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in

concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

None of the core connected persons of our Company has notified us that he or she or it has a present intention to sell his or her or its Shares to us, or has undertaken not to do so, if the general mandate to repurchase Shares is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus which are or may be material:

- (a) the reorganisation deed (the “**Reorganisation Deed**”) dated 15 March 2019 entered into between Mr. Ho, Mr. Sieh, Kanic International, our Company and Good Hill regarding the transfer of an aggregate of 1,000 ordinary shares in A-City Workshop from Mr. Ho and Mr. Sieh to Kanic International for a consideration of HK\$26,780,000, and settled by (a) Kanic International by allotting and issuing 10 shares, credited as fully paid at a premium, to our Company; (b) our Company by allotting and issuing 2,000 Shares, credited as fully paid at a premium, to Good Hill; and (c) Good Hill by allotting and issuing 1 share, credited as fully paid at a premium, to each of Mr. Ho and Mr. Sieh;
- (b) the Deed of Indemnity dated 25 November 2019 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) regarding certain indemnities as more particularly set out in the paragraph headed “E. Other information – 1. Tax and other indemnity” in Appendix IV to this prospectus;
- (c) the Public Offer Underwriting Agreement dated 29 November 2019 entered into between our Company, our executive Directors, our Controlling Shareholders, the Sponsor and I Win Securities Limited (in the capacities of the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriter) relating to the Public Offer, as further described under the section headed “Underwriting” in this prospectus.

2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, we had registered the following trademark:

Trademark	Owner	Trademark number	Class	Place of registration	Expiry date
	A-City Workshop	304281859	37	Hong Kong	21 September 2027

(b) Domain name

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain name	Registrant	Registration date	Expiry date
www.maxicity.com.hk	A-City Workshop	19 February 2019	20 February 2020

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SUBSTANTIAL SHAREHOLDERS

1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), the interests and short positions of our Directors and chief executives of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or which will be required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed on the Stock Exchange, will be as follows:

Director	Company concerned	Nature of interests	Class and number of securities held (Note 1)	Approximate percentage of interests in the company concerned
Mr. Ho	Our Company	Interest in controlled corporation/Interests held jointly with another person	300,000,000 ordinary Shares (L) (Note 2)	75.0
	Good Hill	Beneficial owner	2 ordinary shares	50.0
Mr. Sieh	Our Company	Interest in controlled corporation/Interests held jointly with another person	300,000,000 ordinary Shares (L) (Note 2)	75.0
	Good Hill	Beneficial owner	2 ordinary shares	50.0

Notes:

- The letter "L" denotes the entity's long position in the Shares.
- These 300,000,000 Shares are held by Good Hill, which in turn is directly owned in equal share by each of Mr. Ho and Mr. Sieh. As such, Mr. Ho and Mr. Sieh are deemed under the SFO to be interested in the 300,000,000 Shares collectively held through Good Hill upon the Listing.

2. Interests and/or short positions discloseable under the SFO and our Substantial Shareholders

Please refer to the section headed “Substantial Shareholders” in this prospectus for details of the person, which will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group.

3. Particulars of service agreements and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they have agreed to act as our executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months’ written notice to terminate the service agreement.

Each of our executive Directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of our Board. The aggregate annual salary of our executive Directors is HK\$2,400,000.

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company under which they have agreed to act as our independent non-executive Directors for an initial term of three years commencing from the Listing Date. The aggregate annual fees payable to our independent non-executive Directors is HK\$450,000.

(c) Remuneration of our Directors

- (i) The aggregate of the remuneration paid and benefits in kind granted to our Directors by any member of our Group in respect of the year ended 31 December 2018 is approximately HK\$1,428,000.
- (ii) The aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending 31 December 2019 under the arrangements in force at the date of this prospectus are estimated to be approximately HK\$1,462,500.

D. SHARE OPTION SCHEME

The followings are the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our sole Shareholder passed on 25 November 2019:

1. Conditions

- (a) The Share Option Scheme is conditional upon:
 - (i) the Listing Division granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit (as defined in paragraph 7(b)) to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and
 - (ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our sole Shareholder.
- (b) If the conditions referred to in paragraph 1(a) are not satisfied on or before the date falling 30 days after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.
- (c) Reference in paragraph 1(a)(i) to the Listing Division formally granting the listing and permission referred to therein shall include any such listing and permission which are granted subject to the fulfilment of any condition precedent or condition subsequent.

2. Purpose, duration and administration

- (a) The purpose of the Share Option Scheme is to enable our Company to grant options to the Eligible Participants (as defined in paragraph 3(a) below) as incentives or rewards for their contribution to our Group.
- (b) The Share Option Scheme shall be subject to the administration of our Directors whose decision on all matters arising in relation to the Share Option Scheme or their interpretation or effect shall (save for the grant of options referred to in paragraph 3(b) which shall be approved in the manner referred to therein and save as otherwise provided herein) be final and binding on all persons who may be affected thereby.
- (c) Subject to paragraphs 1 and 13, the Share Option Scheme shall be valid and effective until the close of business of our Company on the date which falls 10 years (the “**Termination Date**”) after the date on which the Share Option Scheme is adopted upon fulfilment of the condition (the “**Adoption Date**”), after which period no further options may be issued but the provisions of the

Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

- (d) An Eligible Participant who accepts the offer in accordance with the terms of the Share Option Scheme or (where the context so permits and as referred to in paragraph 5(d)(i)) his personal representative (the “**Grantee**”) shall ensure that the acceptance of an offer, the holding and exercise of his option in accordance with the Share Option Scheme, the allotment and issue of Shares to him upon the exercise of his option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. Our Directors may, as a condition precedent of making an offer and allotting Shares upon an exercise of an option, require an Eligible Participant or a Grantee (as the case may be) to produce such evidence as it may reasonably require for such purpose.

3. Grant of options

- (a) Subject to paragraph 3(b), our Directors shall, in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the Adoption Date to make an offer to any person belonging to the following classes of participants (the “**Eligible Participants**”) to subscribe, and no person other than the Eligible Participant named in such offer may subscribe, for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such price per Share at which a Grantee may subscribe for the Shares on the exercise of an option, as determined in accordance with paragraph 4 (the “**Subscription Price**”), as our Directors shall, subject to paragraph 4, determine:
- (i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the “**Invested Entity**”) (the “**Eligible Employee**”);
 - (ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
 - (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
 - (iv) any customer of any member of our Group or any Invested Entity;

- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

- (b) Without prejudice to paragraph 7(d) below, the making of an offer to any Director, chief executive of our Company or Substantial Shareholder, or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of an option).
- (c) The eligibility of any of the Eligible Participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.
- (d) An offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as our Directors may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares under the option and the "**Option Period**" (which means, in respect of any particular option, a period (which may not expire later than 10 years from the offer date of that option) to be determined and notified by our Directors to the Grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses under the provisions of paragraph 6; and (ii) 10 years from the offer date of that option) in respect of which the offer is made and further requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the

Share Option Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period of up to 21 days from the offer date.

- (e) An offer shall state, in addition to the matters specified in paragraph 3(d), the following:
 - (i) the name, address and position of the Eligible Participant;
 - (ii) the number of Shares under the option in respect of which the offer is made and the Subscription Price for such Shares;
 - (iii) the Option Period in respect of which the Offer is made or, as the case may be, the Option Period in respect of separate parcels of Shares under the option comprised in the offer;
 - (iv) the last date by which the offer must be accepted (which may not be later than 21 days from the offer date);
 - (v) the procedure for acceptance;
 - (vi) the performance target(s) (if any) that must be attained by the Eligible Participant before any option can be exercised;
 - (vii) such other terms and conditions of the offer as may be imposed by our Directors as are not inconsistent with the Share Option Scheme; and
 - (viii) a statement requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme including, without limitation, the conditions specified in, inter alia, paragraphs 2(d) and 5(a).
- (f) An offer shall have been accepted by an Eligible Participant in respect of all Shares under the option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.
- (g) Any offer may be accepted by an Eligible Participant in respect of less than the number of Shares under the option which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such Eligible Participant and received by our Company together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant

thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

- (h) Upon an offer being accepted by an Eligible Participant in whole or in part in accordance with paragraph 3(f) or 3(g), an option in respect of the number of Shares in respect of which the offer was so accepted will be deemed to have been granted by our Company to such Eligible Participant on the offer date. To the extent that the offer is not accepted within the time specified in the offer in the manner indicated in paragraph 3(f) or 3(g), it will be deemed to have been irrevocably declined.
- (i) The Option Period of an option may not end later than 10 years after the Offer Date of that Option.
- (j) Options will not be listed or dealt in on the Stock Exchange.
- (k) For so long as the Shares are listed on the Stock Exchange:
 - (i) our Company may not grant any options after inside information has come to our knowledge until we have announced the information. In particular, we may not grant any option during the period commencing one month immediately before the earlier of:
 - (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange under the GEM Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and
 - (bb) the deadline for our Company to announce our results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no offer may be made; and
 - (ii) our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

4. Subscription Price

The Subscription Price in respect of any option shall, subject to any adjustments made pursuant to paragraph 8, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and
- (c) the nominal value of the Share,

except that for the purpose of calculating the Subscription Price under paragraph 4(b) above for an option offered within five Business Days of the Listing Date, the price at which the Shares are to be offered for subscription under the Share Offer shall be used as the closing price for any Business Day falling within the period before the Listing Date.

5. Exercise of options

- (a) An option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a Grantee shall entitle our Company to cancel any option granted to such Grantee to the extent not already exercised.
- (b) Unless otherwise determined by our Directors and stated in the offer to a Grantee, a Grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.
- (c) Subject to, inter alia, paragraph 2(d) and the fulfilment of all terms and conditions set out in the offer, including the attainment of any performance targets stated therein (if any), an option shall be exercisable in whole or in part in the circumstances and in the manner as set out in paragraphs 5(d) and 5(e) by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the option remains unexercised is less than one board lot or where the option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each such notice must be accompanied by a remittance for the full amount of the Subscription Price

for Shares in respect of which the notice is given. Within 21 days (seven days in the case of an exercise pursuant to paragraph 5(d)(iii)) after receipt of the notice and, where appropriate, receipt of the certificate of the auditors or the independent financial advisors pursuant to paragraph 8, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or, in the event of an exercise of option by a personal representative pursuant to paragraph 5(d)(i), to the estate of the Grantee) fully paid and issue to the Grantee (or his estate in the event of an exercise by his personal representative as aforesaid) a share certificate for every board lot of Shares so allotted and issued and a share certificate for the balance (if any) of the Shares so allotted and issued which do not constitute a board lot.

- (d) Subject as hereinafter provided, an option may (and may only) be exercised by the Grantee at any time or times during the Option Period provided that:
- (i) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the Grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively;
 - (ii) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in paragraph 6(a)(iv) before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within such period as our Directors may determine following the date of such cessation or termination or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively. The date of cessation or termination as aforesaid shall be the last day on which the Grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not;

- (iii) if a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all our Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the Grantee shall, notwithstanding any other terms on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in accordance with the provisions of paragraph 5(c) at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be;
- (iv) in the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the Grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of paragraph 5(c) and our Company shall allot and issue to the Grantee the Shares in respect of which such Grantee has exercised his option not less than one day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up; and
- (v) if the Grantee is a company wholly owned by one or more Eligible Participants:
 - (aa) the provisions of paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall apply to the Grantee and to the options granted to such Grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall occur with respect to the relevant Eligible Participant; and

- (bb) the options granted to the Grantee shall lapse and determine on the date the Grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.
- (e) Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date 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 Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

6. Early termination of the Option Period

- (a) The Option Period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall lapse on the earliest of:
- (i) the expiry of the Option Period;
 - (ii) the expiry of any of the periods referred to in paragraph 5(d);
 - (iii) the date of commencement of the winding-up of our Company;
 - (iv) in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the Grantee or our Group or the Invested Entity into disrepute);
 - (v) in respect of a Grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (aa) (1) such Grantee or his associate has committed any breach of any contract entered into between such Grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) such Grantee has committed any act of bankruptcy or has become insolvent

or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such Grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (bb) the Option shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above; and

- (vi) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph 5(a) by the Grantee in respect of that or any other option.
- (b) A resolution of our Directors to the effect that the employment of a Grantee has been terminated on one or more of the grounds specified in paragraph 6(a)(iv) or that any event referred to in paragraph 6(a)(v)(aa) has occurred shall be conclusive and binding on all persons who may be affected thereby.
- (c) Transfer of employment of a Grantee who is an Eligible Employee from one member of our Group to another member of our Group shall not be considered a cessation of employment. It shall not be considered a cessation of employment if a Grantee who is an Eligible Employee is placed on such leave of absence which is considered by the directors of the relevant member of our Group not to be a cessation of employment of the Grantee.

7. Maximum number of Shares available for subscription

- (a) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by our Group if the grant of such option will result in the limit referred to in this paragraph 7(a) being exceeded.

- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, i.e. 40,000,000 Shares (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option) (the “**General Scheme Limit**”) provided that:
- (i) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(ii), our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted; and
 - (ii) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(i), our Company may seek separate Shareholders’ approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph 7(b)(i) to Eligible Participants specifically identified by our Company before such approval is sought.
- (c) Subject to paragraph 7(d), the total number of Shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options to a Grantee under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his close associates (or his associates if such Grantee is a connected person (as defined in the GEM Listing Rules)) abstaining from voting.

- (d) Without prejudice to paragraph 3(b), where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting.

- (e) For the purpose of seeking the approval of our Shareholders under paragraphs 7(b), 7(c) and 7(d), our Company must send a circular to our Shareholders containing the information required under the GEM Listing Rules and where the GEM Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the GEM Listing Rules abstaining from voting.

8. Adjustments to the Subscription Price

- (a) In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial advisor to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:
- (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
 - (ii) the Subscription Price of any option; and/or
 - (iii) (unless the relevant Grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial advisor shall be made, provided that:

- (i) any such adjustment shall give the Grantee the same proportion of the issued share capital of our Company for which such Grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be allotted and issued at less than its nominal value;
- (iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (iv) any such adjustment shall be made in compliance with such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to in this paragraph 8(a), other than any adjustment made on a capitalisation issue, the auditors or such independent financial advisor must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules.

- (b) If there has been any alteration in the capital structure of our Company as referred to in paragraph 8(a), our Company shall, upon receipt of a notice from a Grantee in accordance with paragraph 5(c), inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made in accordance with the certificate of the auditors or the independent financial advisor obtained by our Company for such purpose or, if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the auditors or the independent financial advisor as soon as practicable thereafter to issue a certificate in that regard in accordance with paragraph 8(a).
- (c) In giving any certificate under this paragraph 8, the auditors or the independent financial advisor appointed under paragraph 8(a) shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby.

9. Cancellation of options

- (a) Subject to paragraph 5(a) and Chapter 23 of the GEM Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

- (b) Where our Company cancels any option granted to a Grantee but not exercised and issues new option(s) to the same Grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph 7(b)(i) or 7(b)(ii).

10. Share capital

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient authorised but unissued share capital of our Company to allot and issue the Shares on the exercise of any option.

11. Disputes

Any dispute arising in connection with the number of Shares the subject of an option, or any adjustment under paragraph 8(a) shall be referred to the decision of the auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

12. Alteration of the Share Option Scheme

- (a) Subject to paragraphs 12(b) and 12(d), the Share Option Scheme may be altered in any respect by a resolution of our Directors except that:
 - (i) the provisions of the Share Option Scheme as to the definitions of “Eligible Participants”, “Grantee”, “Option Period” and “Termination Date”; and
 - (ii) the provisions of the Share Option Scheme relating to the matters governed by Rule 23.03 of the GEM Listing Rules;

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of our Shareholders under the Articles for a variation of the rights attached to the Shares.

- (b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

- (c) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.
- (d) The terms of the Share Option Scheme and/or any options amended pursuant to this paragraph 12 must comply with the applicable requirements of the GEM Listing Rules.

13. Termination

Our Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares which may be issued upon the exercise of the options granted under the Share Option Scheme, being 40,000,000 Shares in total. As at the date of this prospectus, no option had been granted by our Company under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnity

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into the Deed of Indemnity (being one of the material contracts referred to in the paragraph headed “B. Further information about the business of our Group – 1. Summary of material contracts” of this appendix) to provide the following indemnities in favour of our Company (for itself and as trustee for each of its present subsidiaries).

Under the Deed of Indemnity, the Indemnifiers will jointly and severally agree, covenant and undertake to indemnify each member of our Group against:

- (a) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer, incur or be imposed by any regulatory authority or court in Hong Kong, or any applicable jurisdiction as a result of any violation or non-compliance by any member of our Group with any applicable law, rule or regulation on all matters subsisting prior to the date on which the conditions stated in the paragraph headed “Structure and Conditions of the Share Offer – Conditions of the Share Offer” of this Prospectus are fulfilled (the “**Effective Date**”);

- (b) taxation, together with all reasonable costs (including all legal costs), expenses or other liabilities which any member of our Group may incur in connection with (i) the investigation, assessment, contesting or settlement of any taxation claim under the Deed of Indemnity; (ii) any legal proceeding in relation to taxation claim in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or (iii) the enforcement of any such settlement or judgment falling on any member of our Group resulting from or by reference to any income, profits or gains, transactions, events, acts, omissions, matters or things earned, accrued or received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company;
- (c) any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or our associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong to any member of our Group on or before the Effective Date;
- (d) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur as a result of directly or indirectly or in connection with any litigation, proceeding, claim, investigation, inquiry, enforcement proceeding or process by any governmental, administrative or regulatory body which (i) any member of our Group, their respective directors and/or representatives or any of them is/are involved; and/or (ii) arises due to some act or omission of, or transaction voluntarily effected by, any member of our Group or any of them (whether alone or in conjunction with some other act, omission or transaction) on or before the Effective Date;
- (e) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur arising from or in connection with the title defects of the properties owned by any member of our Group or any lease entered into by any member of our Group (either due to non-registration of the lease agreements or any other reasons) in any jurisdiction which were occurred on or before the Effective Date; and
- (f) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur as a result of or in connection with the implementation of the Reorganisation in the preparation for the Listing on GEM as described in the Prospectus.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation liability or claim mentioned in the paragraph immediately above:

- (a) to the extent that allowance, provision or reserve has been made for such taxation in the audited accounts of our Group for the two years ended 31 December 2018 and the five months ended 31 May 2019, respectively;
- (b) to the extent that such claim for taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any introduction of new legislation or any retrospective change in law or the interpretation or practice by the relevant tax authority coming into force after the Effective Date or to the extent that the taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;
- (c) for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business on or before the Effective Date;
- (d) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the consent of the Indemnifiers and otherwise than in the ordinary course of business on or before the Effective Date;
- (e) to the extent of any allowance or provision or reserve made for taxation in the audited accounts of our Group for the two years ended 31 December 2018 and the five months ended 31 May 2019, respectively, which is finally established to be an over-allowance or over-provision or an excessive reserve provided that the amount of any such allowance or provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter;
- (f) to the extent that such claim or taxation claim arises or is incurred as a consequence of a change in any accounting policy or practice adopted by any other member of our Group after the Effective Date; or
- (g) to the extent that any member of our Group shall have admitted liability in respect of the circumstances giving rise to the claim for taxation after the Effective Date.

Our Directors have been advised that no material liability for estate duty would be likely to fall upon our Company or any of our subsidiaries in the Cayman Islands, the BVI and Hong Kong.

2. Litigation or claims

Save as disclosed in the paragraphs headed “Business – Litigations and claims” in this prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to our Directors to be pending or threatened against any member of our Group, that would have a material adverse effect on our business, results of operations or financial condition.

3. The Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

Save for the advisory fees to be paid to Grande Capital Limited as the Sponsor in connection with the Listing and advisory fees to be paid to Grande Capital Limited as our compliance adviser with effect from the Listing Date, neither Grande Capital Limited nor any of their respective associates has or may, as a result of the Listing, have any interests in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities).

The Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

4. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately HK\$44,000 and are payable by our Company.

5. Promoters

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualification of experts

The qualifications of the experts (as defined under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the GEM Listing Rules) who have given their opinions or advice in this prospectus are as follows:

Expert	Qualification
Grande Capital Limited	A corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activities as defined in the SFO
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Mr. Chan Chung	Barrister-at-law in Hong Kong
Grant Thornton Hong Kong Limited	Certified Public Accountants
Frost & Sullivan Limited	Industry consultant
CT Partners Consultants Limited	Internal control adviser

None of the experts named above 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 members of our Group.

7. Consents of experts

Each of the Sponsor, Conyers Dill & Pearman, Mr. Chan Chung, Grant Thornton Hong Kong Limited, Frost & Sullivan Limited and CT Partners Consultants Limited has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

8. Miscellaneous

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the parties listed under the paragraph headed “6. Qualification 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 date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (b) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (d) no capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option;
- (e) we have not issued or agreed to issue any founder or management or deferred Shares;
- (f) we have no outstanding debentures or convertible debt securities;
- (g) no commissions, discounts, brokerages or other special terms were granted within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group, and none of our Directors nor any of the parties listed under the paragraph headed “6. Qualification of experts” in this appendix has received any such payment or benefit;
- (h) within the two years immediately preceding the date of this prospectus, no commission (but not including commission to the Underwriter) had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares in or debentures of our Company;
- (i) our Directors have confirmed that there has been no material adverse change in the financial or trading position of our Group since 31 May 2019;
- (j) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (k) in case of discrepancy, the English version of this prospectus shall prevail over the Chinese version.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Bilingual prospectus

The English version and the Chinese version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the **WHITE** and **YELLOW** Application Forms; (b) the written consents referred to in “E. Other Information – 7. Consents of experts” in Appendix IV to this prospectus; and (c) copies of the material contracts referred to in “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Loeb & Loeb LLP of 21st Floor, CCB Tower, 3 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report of our Group from Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited financial statements of our Group for the two years ended 31 December 2018 and the five months ended 31 May 2019;
- (d) the report from Grant Thornton Hong Kong Limited relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus;
- (f) the legal opinion issued by Mr. Chan Chung, the Legal Counsel, in respect of certain aspects of Hong Kong laws and regulations applicable to our Group;
- (g) the Frost & Sullivan Report prepared by Frost & Sullivan;
- (h) the report on internal control review prepared by CT Partners Consultants Limited;
- (i) the Companies Law;
- (j) the written consents referred to in the paragraph headed “E. Other Information – 7. Consents of experts” in Appendix IV to this prospectus;
- (k) the material contracts referred to in the paragraph headed “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES AND AVAILABLE FOR INSPECTION**

- (l) the service agreements and appointment letters referred to in the paragraph headed “C. Further information about our Directors and our Substantial Shareholders – 3. Particulars of service agreements and appointment letters” in Appendix IV to this prospectus; and

- (m) the Share Option Scheme.

Maxicity Holdings Limited
豐城控股有限公司