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### 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.

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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
<b>Total</b>	<b>12</b>	<b>94,323</b>	<b>100.0</b>	<b>16<sup>(Note 1)</sup></b>	<b>111,245</b>	<b>100.0</b>	<b>11</b>	<b>51,906</b>	<b>100.0</b>	<b>15<sup>(Note 2)</sup></b>	<b>75,287</b>	<b>100.0</b>

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\$249.5 million yet to be recognised as revenue after the Track Record Period, among which, approximately HK\$108.7 million, HK\$134.0 million and HK\$6.8 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 131 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 document.

### 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

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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 131 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 document. 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 document.

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### **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 document. 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

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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 document.

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\$169.3 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 document.

*(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. 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:

<b>Major attribute</b>	<b>How our Group fulfils the major attributes</b>
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.

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*(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 document 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.

It is estimated that we will have to earmark HK\$[22.2] million of working capital for satisfying the Specific Working Capital Requirement, taking into account the combined annual value of uncompleted works for (i) our projects on hand as at 1 January 2019 (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced); (ii) projects that were awarded to us from 1 January 2019 to the Latest Practicable Date; and (iii) the Government contracts that we target to obtain after our registration as an Approved Specialist Contractor.

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

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

<b>Project No.</b> <i>(Notes 1 and 2)</i>	<b>Combined annual value of uncompleted works</b> <i>(Note 3)</i> <i>HK\$'000</i>	<b>Working capital required</b> <i>(Note 4)</i> <i>HK\$'000</i>
O1	42,611	4,261
O2	22,487	2,249
O3	15,571	1,557
O4	4,200	420
O5	3,321	332
O6	3,305	330
O7	21,592	2,159
O8	1,070	107
O9	1,838	184
O10	30,000	3,000
Completed Project 1	56	6
Completed Project 2	707	71
<b>Total:</b>	<b><u>146,758</u></b>	<b><u>14,676</u></b>

*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 and 2 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*

<b>Project No.</b> <i>(Note 1)</i>	<b>Combined annual value of uncompleted works</b> <i>(Note 2)</i> <i>HK\$'000</i>	<b>Working capital required</b> <i>(Note 3)</i> <i>HK\$'000</i>
O11	15,958	1,596
O12	6,621	662
O13	9,060	906
O14	919	92
O15	2,979	298
O16	— <i>(Note 4)</i>	—
O17	— <i>(Note 4)</i>	—
O18	1,694	169
<b>Total:</b>	<b>37,231</b>	<b>3,723</b>

*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 O16 and O17 are expected to commence in February 2020 and December 2019, respectively.

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

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

*Notes:*

- 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

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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.

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



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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\$14.7 million for our projects on hand as at 1 January 2019; (ii) HK\$3.7 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.

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 [REDACTED] – Reasons for the [REDACTED]" in this document), our executive Directors consider that we have the needs to obtain

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additional funding on top of our current available financial resources. In this regard, our executive Directors expect that a portion of the net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] 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\$[REDACTED] 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 [REDACTED] from the [REDACTED] 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 [REDACTED] from the [REDACTED] in a similar manner as discussed in the paragraph headed "Future plans and use of [REDACTED]" in this document 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 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.

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*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 <sup>(Note)</sup>	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 document.	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 document.	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.	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.  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.	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 <sup>(Note)</sup>	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
<b>Total:</b>			<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 [REDACTED] 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 [REDACTED], 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

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application 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 [REDACTED] 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 [REDACTED] 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 [REDACTED], 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 [REDACTED] 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 incurrance 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 [REDACTED] 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. 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 [REDACTED] 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 eight projects with an aggregate tender amount of HK\$66.0 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 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

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[REDACTED] 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 [REDACTED] as we will be able to satisfy the Specific Working Capital Requirement with the net [REDACTED] from the [REDACTED]; (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 [REDACTED].

## **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\$249.5 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 131 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 156 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\$249.5 million, among which, approximately HK\$108.7 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\$108.7 million), (ii) the revenue recognised in the five months ended 31 May 2019 (i.e. approximately HK\$75.3 million), and (iii) 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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<b>Project No.</b> <i>(Note 1)</i>	<b>Date of commencement of our works</b>	<b>Date of completion of our works</b> <i>(Note 2)</i>	<b>Number of site workers required</b> <i>(Note 3)</i>
O1	November 2017	November 2020	50
O2	November 2018	November 2019	28
O3	January 2019	February 2020	10
O4	October 2018	November 2019	2
O5	April 2018	October 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
O14	May 2019	November 2019	<u>10</u>
<b>Total:</b>			<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:

<b>Project No.</b> <i>(Note 1)</i>	<b>Date of commencement of our works</b>	<b>Date of completion of our works</b> <i>(Note 2)</i>	<b>Number of site workers required</b> <i>(Note 3)</i>
O15	October 2019	September 2020	25
O16	February 2020	February 2021	45
O17	December 2019	December 2020	25
O18	October 2019	June 2020	<u>10</u>
<b>Total:</b>			<u><u>105</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 eight projects with an aggregate tender amount of HK\$66.0 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	12,380
T2	Public	Fourth quarter of 2019	5,234
T3	Private	Fourth quarter of 2019	8,178
T4	Private	Fourth quarter of 2019	1,280
T5	Private	Fourth quarter of 2019	13,457
T6	Private	Fourth quarter of 2019	160
T7	Public	Fourth quarter of 2019	5,358
T8	Public	Fourth quarter of 2019	20,000
			66,047

Currently, approximately 67.5% 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. O15, O16, O17 and O18) which require a total of 105 site workers. In respect of Projects O15 and O18 which are expected to commence 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 O15, O16, O17 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 eight projects with an aggregate tender amount of HK\$66.0 million. In particular, we have a relatively higher chance of obtaining Project T1 of approximately HK\$12.4 million, which is expected to require 20 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, O15, O16 and O17, are expected to last until late 2020 or early 2021. Based on information available, we estimate that these projects would require a total of 145 site workers.
- (ii) As mentioned above, we believe that we have a relatively higher chance of obtaining Project T1 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 Project T1 would be carried out from early 2020 up to mid-2021 and require 20 additional site workers on average throughout the project.
- (iii) Apart from Project T1, we have tendered for seven other projects with an aggregate tendered sum of HK\$53.6 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 30 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\$95.6 million of new contract works and variation orders, which had already surpassed the total

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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) Project T1 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 245 site workers to cater for the manpower needs of the aforesaid projects. As at the Latest Practicable Date, we had a total of 131 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 160 site workers by the second half of 2020, thereby justifying our plan to hire an additional 25 site workers.

### *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 [REDACTED], 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 Project T1; (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 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.

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*(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 [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million to expand our service capacity by recruiting the following personnel according to the timeframe set forth below:

	From the [REDACTED] 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>

		Approximate annual salary per staff HK\$
Types of personnel to be recruited	Number of staff	
Project manager/site agent	1	[REDACTED]
Site engineer	1	[REDACTED]
Site foreman	2	[REDACTED]
Safety officer/supervisor	1	[REDACTED]
Labour officer	1	[REDACTED]
Crane truck operator	1	[REDACTED]
Site worker	25	[REDACTED]
Administrative staff	2	[REDACTED]

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:

<b>Proportion of site works delegated to our subcontractors</b>	<b>No. of projects undertaken in</b>		
	<b>FY2017</b>	<b>FY2018</b>	<b>Five months ended 31 May 2019</b>
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
<b>Total</b>	<b>12</b>	<b>16</b>	<b>15</b>

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 casual 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:

	<b>FY2017</b>	<b>FY2018</b>	<b>Five months ended 31 May 2019</b>
	\$'000	\$'000	\$'000
<b>Estimated net cost savings</b>			
– 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 <sup>(Note 1)</sup>	(820)	(1,006)	(776)
	<u>1,023</u>	<u>1,324</u>	<u>893</u>
<b>Estimated gross profit</b> <sup>(Notes 2 and 3)</sup>	19,886	22,909	15,127
<b>Estimated gross profit margin</b> <sup>(Note 4)</sup>	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 document.
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:

	<b>Project O7 HK\$'000</b>	<b>Project O10 HK\$'000</b>	<b>Project O11 HK\$'000</b>
<b>Estimated net cost savings</b>			
– Subcontracting expenses and site planning and surveying charges reduced	3,685	3,297	1,636
Less			
– Additional staff costs	921	824	409
– Additional depreciation expenses, repair and maintenance cost and insurance costs of machinery	1,658	1,484	736
– Additional costs of materials <i>(Note 1)</i>	737	659	327
	369	330	164
 <b>Actual gross profit margin during the five months ended 31 May 2019</b> <i>(Note 2)</i>	 23.4%	 19.0%	 10.3%
 <b>Estimated gross profit margin during the five months ended 31 May 2019 without the use of subcontractors</b>	 25.9%	 22.4%	 15.8%
 <b>Estimated improvement in gross profit margin during the five months ended 31 May 2019</b>	 2.5 percentage points	 3.4 percentage points	 5.5 percentage points

*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 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 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.

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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 [REDACTED]. 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

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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.

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

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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 [REDACTED] from the [REDACTED] 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 site workers was 60, 67, 130 and 131, 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 [REDACTED]. 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 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.

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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 [REDACTED] 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 [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] 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	[REDACTED]	five years
Grout pump	3	Mainly for mixing and pumping of cement grout	[REDACTED]	five years
Shotcrete machine	1	Mainly for spraying concrete	[REDACTED]	five years
Pneumatic drill	1	Mainly for rock drilling	[REDACTED]	five years
Crane truck	1	Mainly for lifting and moving heavy materials	[REDACTED]	five years
Air compressor	4	Mainly for removing the excavated material by air lifting method from drilling and shotcreting operations	[REDACTED]	five years
Generator	2	Mainly for providing electricity	[REDACTED]	five years

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Type of machinery	Number of machinery	Use of machinery	Acquisition cost per unit HK\$	Expected useful life
Motor vehicle	5	Mainly for transporting our project management staff and site workers between different work sites	[REDACTED]	three years

We intend to finance the acquisition of the above machinery solely with our net [REDACTED] from the [REDACTED]. 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. 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

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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 [REDACTED] – Reasons for [REDACTED]" in this document. By financing our expansion plan with the net [REDACTED] from the [REDACTED], 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 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

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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%	2,000
				<b>Total:</b>	<b><u>10,900</u></b>

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 [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] 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 [REDACTED]" in this document.

### **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.



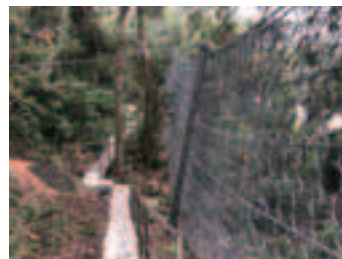
*Drilling and installation of soil nails*



*Construction of retaining walls*



*Installation of debris flow protection rigid barriers*



*Construction of flexible barrier system*

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*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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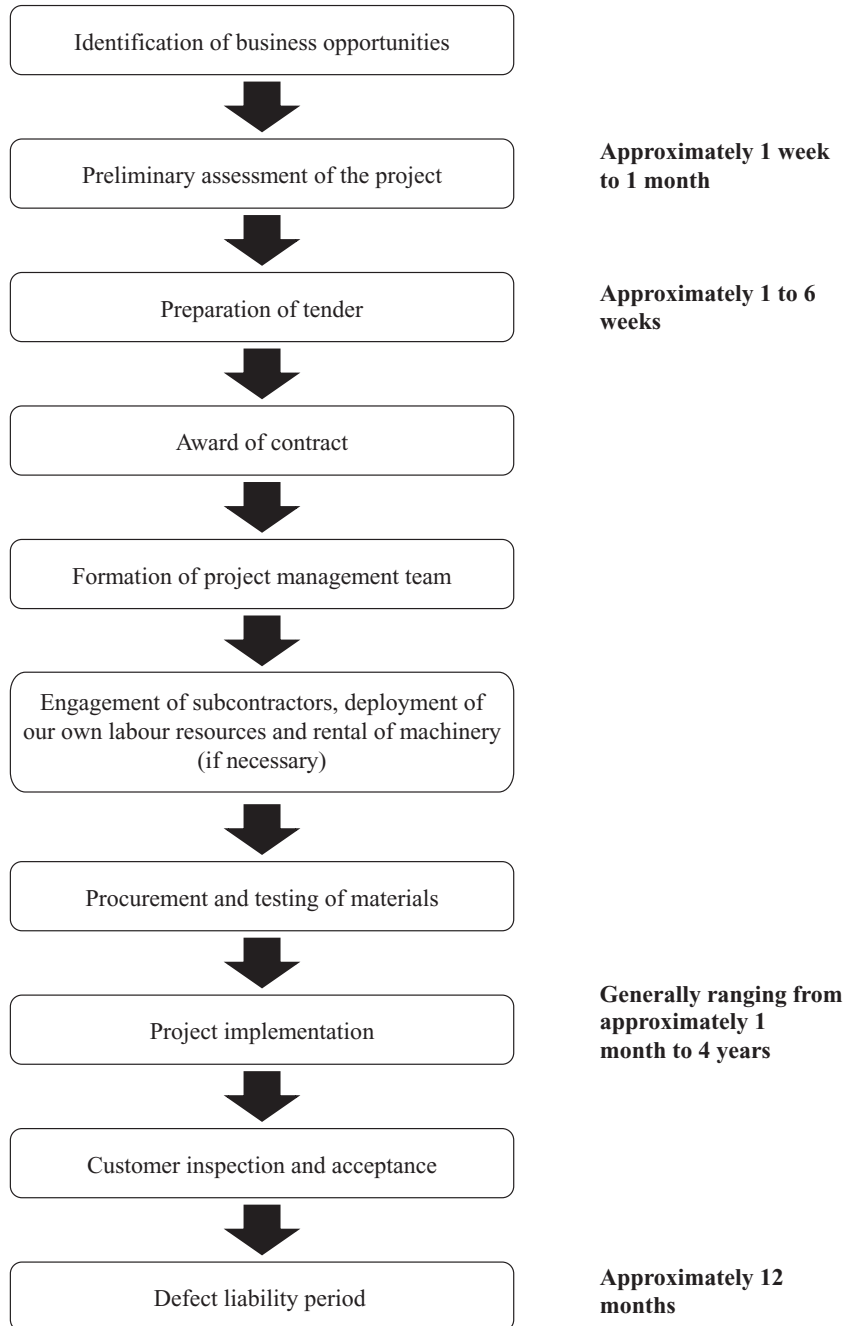
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### BUSINESS OPERATIONS

#### 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:

	<b>FY2017</b>	<b>FY2018</b>	<b>Five months ended 31 May 2019</b>
<b>Number of projects for which we have submitted tenders</b>	12	17	10
<b>Number of projects awarded</b> <i>(Note)</i>	6	9	6
<b>Success rate (%)</b> <i>(Note)</i>	<u>50.0</u>	<u>52.9</u>	<u>60.0</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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## BUSINESS

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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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## BUSINESS

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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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## BUSINESS

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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.

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.

## BUSINESS

### *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 document 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
<b>Total</b>	<b>12</b>	<b>94,323</b>	<b>100.0</b>	<b>16<sup>(Note 1)</sup></b>	<b>111,245</b>	<b>100.0</b>	<b>11</b>	<b>51,906</b>	<b>100.0</b>	<b>15<sup>(Note 2)</sup></b>	<b>75,287</b>	<b>100.0</b>

*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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## BUSINESS

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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:

	<b>FY2017</b>	<b>FY2018</b>	<b>Five months ended 31 May 2019</b>
	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>
<b>Revenue recognised</b>			
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	<u>3</u>	<u>4</u>	<u>6</u>
Total	<u>12</u>	<u>16</u>	<u>15</u>

BUSINESS

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)				Estimated revenue to be recognised after the Track Record Period <i>(Note 5)</i> HK\$'000		
								FY2017 HK\$'000	FY2018 HK\$'000	Five months ended 31 May 2019 HK\$'000	%			
#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; 994
#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	Seven months ending 31 December 2019; 7,214
#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; 21,112
#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: 25,480 Seven months ending 31 December 2019; 646
#05	5	Fong On Construction Limited	22,934	Private	The Peak	Commencement: November 2018 Completion: November 2019	(I), (II), (V), (VIII)	-	-	447	0.4	11,435	15.2	Seven months ending 31 December 2019; 11,052
#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; 718
#08	8	Fong On Construction Limited	6,863	Private	Pokfulam	Commencement: October 2018 Completion: November 2019	(I), (VIII)	-	-	2,663	2.4	3,806	5.1	FY2020: 28 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; 10,540 FY2020: 4,429

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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 <sup>(Note 1)</sup>	5	6	12	14
Number of new projects awarded to us <sup>(Note 2)</sup>	7	12	4	4
Number of projects completed <sup>(Note 3)</sup>	<u>(6)</u>	<u>(6)</u>	<u>(2)</u>	<u>(0)</u>
Ending number of projects <sup>(Note 4)</sup>	<u><u>6</u></u>	<u><u>12</u></u>	<u><u>14</u></u>	<u><u>18</u></u>

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## BUSINESS

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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	95,565
Revenue recognised	<u>(94,323)</u>	<u>(111,245)</u>	<u>(75,287)</u>	<u>(62,505)</u>
Ending value of backlog <i>(Note 2)</i>	<u>168,681</u>	<u>155,501</u>	<u>153,987</u>	<u>187,047</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\$249.5 million yet to be recognised as revenue after the Track Record Period among which, approximately HK\$108.7 million, HK\$134.0 million and HK\$6.8 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:

**BUSINESS**

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 (Note 4)		
						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	21,112	25,480	-
O2	The Peak	Fong On Construction Limited	Private	22,934	Commencement: November 2018 Completion: November 2019	-	447	11,435	11,052	-	-
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	10,540	4,429	-
O4	Pokfulam	Fong On Construction Limited	Private	6,863	Commencement: October 2018 Completion: November 2019	-	2,663	3,806	394	-	-
O5	Choi Hung	Customer E	Private	4,818	Commencement: April 2018 Completion: October 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	994	331	-
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	7,214	-	-
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	646	-	-
O9	Lian Tang	Customer C	Public	7,112	Commencement: July 2017 Completion: February 2020	1,389	5,372	1,120	718	28	-
O10	Various locations in Kowloon and New Territories	Geotech Engineering Limited	Public	30,000	Commencement: January 2019 Completion: December 2019	-	-	9,625	20,375	-	-



**BUSINESS**

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	12,948	4,042	-
O12	Shing Mun Valley	Fong On Construction Limited	Public	15,481	Commencement: March 2019 Completion: March 2020	-	-	752	5,869	8,257	-
O13	Various locations in Hong Kong	Geotech Engineering Limited	Public	20,000	Commencement: February 2019 Completion: February 2020	-	-	669	8,391	10,889	-
O14	The Peak	Fong On Construction Limited	Private	919	Commencement: May 2019 Completion: November 2019	-	-	-	919	-	-
O15	Tsing Yi	Customer C	Private	16,292	Commencement: October 2019 Completion: September 2020	-	-	-	2,979	13,313	-
O16	Various locations in Hong Kong	Geotech Engineering Limited	Public	41,000	Commencement: February 2020 Completion: February 2021	-	-	-	-	34,167	6,833
O17	Various locations in Kowloon and New Territories	Geotech Engineering Limited	Public	28,000	Commencement: December 2019 Completion: December 2020	-	-	-	-	28,000	-
O18	Various locations in Hong Kong Island, Kowloon and New Territories	Customer D	Public	6,774	Commencement: October 2019 Completion: June 2020	-	-	-	1,694	5,080	-
<b>Total:</b>						<b>85,697</b>	<b>96,795</b>	<b>74,523</b>	<b>108,703</b>	<b>134,016</b>	<b>6,833</b>

*Notes:*

1. 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.
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.

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## BUSINESS

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3. 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.

### 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>111,245</u>	<u>100.0</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. 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 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



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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. 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 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.

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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. 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*

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 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, with the results of one of them 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

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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 document), 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 document), to us in early 2019. 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.

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 [REDACTED], 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.

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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		Gross profit margin during the Track Record Period %		
						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	%	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
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	42.3	2,311	3.1	-	7,870	3,594	576	-	20.8 <sup>(Note 4)</sup>
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	31.4	424	0.6	-	5,640	2,781	58	-	20.0 <sup>(Note 5)</sup>
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 <sup>(Note 6)</sup>
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%.

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Set out below are detailed descriptions of our major scope of works in Project A1, A2 and A7:

	<b>Preliminary works</b>	<b>General works</b>	<b>Geotechnical works</b>	<b>Surface protection and associated works</b>	<b>Landscape softworks and establishment works</b>
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

**BUSINESS**

	<b>Preliminary works</b>	<b>General works</b>	<b>Geotechnical works</b>	<b>Surface protection and associated works</b>	<b>Landscape softworks and establishment works</b>
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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	<b>Preliminary works</b>	<b>General works</b>	<b>Geotechnical works</b>	<b>Surface protection and associated works</b>	<b>Landscape softworks and establishment works</b>
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 document. 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 document. 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.

### 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

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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 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:

	<b>FY2017</b>		<b>FY2018</b>		<b>Five months ended 31 May 2019</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Tai Kam Construction Engineering Company Limited</b>						
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
<b>Fong On Construction Limited</b>						
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
<b>Customer C</b>						



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	<b>FY2017</b>		<b>FY2018</b>		<b>Five months ended 31 May 2019</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
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	–	–	–	–	–
<b>Customer D</b>						
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
<b>Customer E</b>						
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
<b>Geotech Engineering Limited</b>						
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
<b>Customer G</b>						
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 <sup>(Note 4)</sup>
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 document 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 document, 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 document 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 <sup>(Note 1)</sup>	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 <sup>(Note 2)</sup>	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: <sup>(Note 2)</sup>	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 and FY2018. 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.

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### **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 document, 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 156 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
<b>General management</b>	2	2	2	2
<b>Project management</b>	12	15	20	20
<b>Finance and administration</b>	2	2	3	3
<b>Site workers (including casual workers)</b>	<u>60</u>	<u>67</u>	<u>130</u>	<u>131</u>
	<u>76</u>	<u>86</u>	<u>155</u>	<u>156</u>

The following table sets forth the average monthly number of our casual 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 casual workers <sup>(Note)</sup>	72	77	95

*Note:* The monthly number of casual workers is determined by dividing the total actual man-day of our casual workers over the number of working days in the month. The average monthly number of casual workers is determined by dividing the aggregate monthly number of casual 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\$249.5 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\$249.5 million for our projects on hand as at the Latest Practicable Date, approximately HK\$108.7 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\$108.7 million), (ii) the revenue recognised in the five months ended 31 May 2019 (i.e. approximately HK\$75.3 million), and (iii) without taking into account any additional projects to be obtained by us in the remaining period of FY2019, we expect to generate

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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 156 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 document.

### **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 [REDACTED]. 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 document.

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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 document.

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 document.

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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:

<b>Nature of accident</b>	<b>Safety control measures implemented</b>
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 <sup>(Note 1)</sup>	Our Group <sup>(Note 2)</sup>
<b>From 1 January to 31 December 2017</b>		
Accident rate per 1,000 workers	32.9	11.3 <sup>(Note 4)</sup>
Fatality rate per 1,000 workers	0.185	Nil
<b>From 1 January to 31 December 2018</b>		
Accident rate per 1,000 workers	31.7	10.5 <sup>(Note 4)</sup>
Fatality rate per 1,000 workers	0.125	Nil
<b>From 1 January 2019 to 31 May 2019</b>		
Accident rate per 1,000 workers	N/A <sup>(Note 3)</sup>	6.5 <sup>(Note 4)</sup>
Fatality rate per 1,000 workers	N/A <sup>(Note 3)</sup>	Nil

*Notes:*

- 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.
- 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.
- The relevant data has not been published as at the Latest Practicable Date.
- 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 <sup>(Notes)</sup>
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:*

- 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 document. 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 document 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 document.

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 <i>HK\$</i>
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 document.
- **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
<b>From the Latest Practicable Date to 31 December</b>		
<b>2019</b>	–	–
<b>2020</b>	1	–
<b>2021</b>	2	1
<b>2022</b>	–	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 due to aforesaid reasons. 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 Group in the proceedings shall be covered by the insurance policy maintained by the

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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 [REDACTED] 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 document.

## **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 [REDACTED], 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;
- (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;



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- (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:

<b>Areas of findings</b>	<b>Particulars of the findings</b>	<b>Improvement Measures</b>
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.
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.

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Areas of findings	Particulars of the findings	Improvement Measures
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 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.

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Key risks relating to our business are set out in the section headed "Risk factors" in this document. 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 assess 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 document. 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 document.

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 document.

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 [REDACTED].