
FUTURE PLANS AND USE OF [REDACTED]

BUSINESS OBJECTIVES AND STRATEGIES

Our Group will endeavour to expand our business operations by adopting our business strategies through the following implementation plans. For details of our business strategies, please refer to the paragraph headed “Business – Business strategies” in this document. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to in the paragraph headed “Bases and assumptions” in this section. These bases and assumptions are subject to uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” in this document. Our Group’s actual course of business may vary from the business objectives set out in this document. There can be no assurance that the plans of our Group will be materialised in accordance with the expected time frame or that the business objectives of our Group will be accomplished at all.

REASONS FOR THE [REDACTED]

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

- the net [REDACTED] from the [REDACTED] will provide financial resources to our Group for our business plans as set out in the paragraph headed “Business – Business strategies” of this document, which will further strengthen our market position and expand our market share in the slope works industry in Hong Kong. In particular, we intend to apply part of the net [REDACTED] for fulfilling the working capital requirement for being a probationary contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”;
- a public [REDACTED] status will enhance our corporate profile and recognition and enable our Group to be considered more favourably by our customers when tendering for slope works projects, given that a [REDACTED] company is subject to ongoing regulatory compliance for announcements, financial disclosures and corporate governance;
- a public [REDACTED] status will also facilitate us in retaining and attracting talents to join our Group. Access to a larger pool of talents will improve our service quality and facilitate our recruitment of additional manpower under our expansion plans. In addition, the status of being a [REDACTED] company will facilitate our in-house talent management, through staff retention and

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development, whereby our existing staff may be motivated to further develop their career with us in view of the perceived status associated with working for a [REDACTED] company in Hong Kong;

- the [REDACTED] will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders. Such platform would allow us to gain direct access to the capital market for equity and/or debt financing, both at the time of the [REDACTED] as well as at later stage, to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance to enhance Shareholder's return; and
- upon the [REDACTED], our Shares will be freely traded on the Stock Exchange. A public [REDACTED] status on GEM will offer us a broader shareholder base which could lead to a more liquid market in the trading of our Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the [REDACTED].

Funding needs for implementing our business strategies

(i) Our available working capital as at the Latest Practicable Date is not sufficient to finance our expansion plan

As at 31 August 2019, our available working capital which comprised (i) our cash and bank balances of HK\$4.1 million; and (ii) our unutilised banking facilities of HK\$10.0 million, amounted to a total of approximately HK\$14.1 million. For further details, please refer to the section headed "Financial information – Net current assets" in this document. Our executive Directors consider that the amount of our available working capital fluctuates from time to time, mainly depending on the timing of (i) payment from our customers; and (ii) payment to our subcontractors and suppliers of materials. Therefore, the amount of our available working capital as at a particular date may not fully reflect our general liquidity position. Some of our customers, including our top two customers for FY2017 and FY2018 (i.e. Tai Kam Construction Engineering Company Limited and Fong On Construction Limited) adopt a "pay when paid" policy with us and they have the rights to pay us after collection of payments from their customers. In the event our customers fail to collect payment from their customers, this will, in turn, adversely affect the collectability of our payments from our customers. In respect of our other customers, we generally grant them a credit terms for a period of 30 to 60 days from the invoice date. Meanwhile, we have not adopted any "pay when paid" policy with our suppliers and we are required to pay within the credit term, generally ranging from 0 to 45 days, granted by our suppliers. Based on the foregoing, there can be no assurance that we will receive payments from our customers before we are required to settle our suppliers' invoices and other current liabilities, which may result in possible cash flow mismatch.

Based on the current scale of our operations and the costs incurred by us during the Track Record Period, our executive Directors estimate that we currently have to incur an average monthly expense of approximately HK\$6.6 million, primarily comprising staff cost,

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subcontracting expenses, administrative expenses and cost of materials for our daily operations. As at the Latest Practicable Date, the total estimated revenue to be recognised from our projects on hand after the Track Record Period amounted to approximately HK\$249.5 million, which is higher than the value of our backlog as at 31 December 2017 (i.e. approximately HK\$168.7 million), 31 December 2018 (i.e. approximately HK\$155.5 million) and the five months ended 31 May 2019 (i.e. approximately HK\$154.0 million), respectively. During the Track Record Period, our operating expenses had increased as our revenue increased. In light of the increase in our backlog value as at the Latest Practicable Date as compared to the year-end dates during the Track Record Period as indicated above, our executive Directors expect that we will have to incur a higher amount of monthly expense for supporting our future operations.

As at the Latest Practicable Date, our Group was in the course of arranging the performance guarantee as required by the relevant customers for two of our projects on hand. The table below sets forth the details of these projects:

Project No.	Time of award	Customer	Location of the project	Private/ public sector	Estimated contract sum <i>HK\$'000</i>	Percentage of estimated contract sum required as performance guarantee	Amount of performance guarantee <i>HK\$'000</i>
Project F5	July 2019	Geotech Engineering Limited	Various locations in Hong Kong	Public	41,000	10%	4,100
Project F6	July 2019	Geotech Engineering Limited	Various locations in Kowloon and New Territories	Public	28,000	10%	2,800
						Total:	<u>6,900</u>

For further details of these projects, please refer to the paragraph headed "Business – Business Strategies – 4. Increasing our reserve for financing the issue of performance guarantees" in this document.

Pursuant to the contract terms of these projects, we were required to provide performance guarantee issued by banks or insurance companies in the amount of approximately 10% of the contract sum of the respective projects in favour of Geotech Engineering Limited. When arranging with bank or insurance company for the issuance of performance guarantee, a pledged deposit equivalent to a certain percentage (i.e. 30-40%) of the performance guarantee is normally required to be placed with the bank or insurance company. As at the Latest Practicable Date, we were still in the course of arranging the performance guarantee for these projects.

Based on our past experience, we expect that we would have to provide a pledged deposit equivalent to at least 30% of the amount of performance guarantee to be issued. As we are required to take out performance guarantee in the total amount of HK\$6.9 million for the two projects on hand aforementioned, we expect that we will be required by the issuing

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insurance company/bank to place a pledged deposit of approximately HK\$2.1 million (which is equivalent to 30% of the total amount of performance guarantee required). Based on the foregoing, our executive Directors consider that it is prudent for us to reserve HK\$2.1 million of our available working capital for financing the issue of performance guarantee in relation to our projects on hand.

Out of our available working capital of approximately HK\$14.1 million as at 31 August 2019, our Group had reserved a sum of HK\$4.2 million for settlement of our current tax liabilities. Based on the above analysis, after reserving (i) approximately HK\$2.1 million for financing the issue of performance guarantee for our projects on hand, and (ii) approximately HK\$4.2 million for settlement of our current tax liabilities, and without taking into account other transactions that took place after 31 August 2019, our current available working capital is approximately HK\$7.8 million. In view of the aforesaid, our current available working capital would not allow room for our further business expansion such as fulfilling the working capital requirement for being a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of "Landslip preventive/remedial works to slopes/retaining walls" and/or undertaking additional projects which would inevitably require more available cash for up-front costs and general working capital. Therefore, our executive Directors consider that we will need to raise additional funding through the [REDACTED] to facilitate the implementation of our future plans, while reserving our current available working capital for our existing business operations.

(ii) Equity financing enables us to formulate and implement an integral expansion plan

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

The aforesaid business strategies are mutually complementary and represent an integral initiative to further strengthen our market position, increase our market share and capture the growth in the Hong Kong slope works industry. For instance, our ability to tender for Government projects as Approved Specialist Contractor largely depends on our available financial resources in fulfilling the Specific Working Capital Requirement stipulated by the Development Bureau. The acquisition of additional types of Specified Machinery will facilitate our application to become an Approved Specialist Contractor. Meanwhile, after being registered as an Approved Specialist Contractor, we expect to obtain additional contract works which, in turn, will increase our machinery and manpower needs. In addition, as we continue to diversify our customer base, some new customers (e.g. Geotech Engineering Limited and Customer G) may require us to arrange for performance guarantee to secure our obligations under the projects awarded by them. Having considered the present scale of our operations and the available resources, we would only be able to leverage on

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the qualification of Approved Specialist Contractor to obtain additional projects if it is matched with a corresponding expansion in our service capacity and financial resources simultaneously.

As our entire expansion plan requires a total sum of approximately HK\$[REDACTED] million, our executive Directors consider that we could not finance our expansion plan solely by our internal resources without adversely affecting our financial position and liquidity. In particular, our Group recorded net cash generated from operating activities of approximately HK\$9.3 million and HK\$7.2 million for FY2017 and FY2018, respectively. If our expansion plan is carried out by phases and financed solely with our net cash generated from operating activities in each financial year, it would take us approximately five to six years to complete our expansion. Further, there is uncertainty in making estimation about the level of our operating cash inflow over a timespan of five to six years. The level of net cash generated from operating activities may fluctuate from time to time and is affected by factors beyond our control, mainly including (i) the amount and timing of billing to and receipts from our customers; and (ii) the amount and timing of payment to our staff, subcontractors and materials suppliers. In addition, our estimated average monthly cash outflow required for our daily operations for FY2019 after taking into account our expansion plans will be approximately HK\$12.6 million. There is no guarantee that we will be able to generate sufficient cash inflow from our operating activities in each of the forthcoming five to six years to support our expansion plan. Even if we could accumulate sufficient cash inflow from our operating activities to support our expansion within five to six years, by that time, we would have lost the opportunity to fully capture the forecasted growth in the slope works industry from 2019 to 2023 as stated in the F&S Report.

Following our registration as an Approved Specialist Contractor, the additional projects obtained by us would entail stronger revenue stream. But at the same time, this would also lead to an increase in our liquidity needs for financing project up-front costs and meeting the working capital requirement for being an Approved Specialist Contractor. During the Track Record Period, the average amount of up-front cost required to be paid amounted to approximately 8.1% of the total project cost. In order to tender for public sector projects directly from the Government after becoming an Approved Specialist Contractor, we will be required to fulfil the Specific Working Capital Requirement. Under the Specific Working Capital Requirement, our Group will have to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors. Based on the breakdown set out in the paragraph headed "Business – 1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor – (II) Our additional funding needs to fulfil the Specific Working Capital Requirement for being an Approved Specialist Contractor", it is estimated that our Group will have to earmark working capital of approximately HK\$[22.2] million for satisfying the Specific Working Capital Requirement. In addition, we will also have to acquire additional types of machinery in order to become eligible as an Approved Specialist Contractor. We currently plan to use approximately HK\$[REDACTED] million for the acquisition of additional machinery. Given our current available working capital of approximately HK\$7.8 million as at 31 August 2019, our Group will not be able to meet the Specific Working Capital Requirement and finance our machinery acquisition solely with the use of our own internal resources.

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Having considered the above, our executive Directors are of the view that, as compared to relying on our operating cash inflow, equity financing can provide the necessary funding for us to pursue each of the four business strategies under our expansion plan in a well-coordinated and timely manner.

(iii) Benefits of equity financing over debt financing

When considering the options for funding our expansion plans, our executive Directors have taken into account the following factors and decided that it is in the interests of our Group and our Shareholders as a whole to proceed with equity financing in the form of [REDACTED] rather than through a combination of our internal resources and bank borrowings:

- save for term loans with specified repayment schedule, loan facilities (e.g. bank overdraft or revolving loan, etc.) granted by banks or lending companies normally include a clause which stipulates that loan drawn under the facilities shall be repayable on demand subject to their discretion. Pursuant to the Contractor Management Handbook – Revision B published by the Development Bureau, shortfall in working capital for being an Approved Specialist Contractor can be rectified by the arrangement of a bank loan that is not repayable within 12 months. Therefore, those loan facilities which are repayable on demand will not be acceptable to the Development Bureau in evaluating our level of working capital required for being an Approved Specialist Contractor;
- with a view to enhancing the working capital available for supporting our daily operations in June 2019, A-City Workshop entered into a facility letter with a licensed bank in Hong Kong, pursuant to which A-City Workshop obtained general banking facilities (the “**Banking Facilities**”) in the total amount of up to HK\$10.0 million. The Banking Facilities were secured by (i) personal guarantees of Mr. Ho and Mr. Sieh, all of which will be replaced by corporate guarantee of our Company; and (ii) a bank deposit of HK\$5.0 million placed by A-City Workshop with the licensed bank. Pursuant to the terms of the Banking Facilities, the licensed bank may at any time without prior notice declare any outstanding amount to be immediately due and payable. Given any loans drawn under the Banking Facilities are repayable on demand, they will not be acceptable to the Development Bureau in evaluating our level of working capital required for satisfying the Special Working Capital Requirement for being an Approved Specialist Contractor;
- we have previously applied to three lending companies which are Non-Authorised Institutions in Hong Kong each for an unsecured loan facility in the amount of HK\$10.0 million. Each of these lending companies have rejected our applications after their credit approval evaluations. Based on our enquiries with the lending companies, our applications were rejected because, according to their internal policies, they normally do not grant any loan facility to private company unless the applicant and/or its shareholder(s) could provide acceptable assets as security for 100% to 200% of the loan amount, depending on the nature of security assets and the loan amount involved. As at 31 May 2019, the carrying amount for our

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fixed assets being acceptable as loan security, mainly comprising our machinery and equipment, only amounted to HK\$0.6 million. Therefore, our Group did not have sufficient available assets to provide for the required loan security. Each of the lending companies has confirmed that their rejections are unrelated to any historical financing records, individual creditworthiness or compliance status of our Group; and

- bank borrowings are subject to repayment obligations for the principal amount and associated interest expenses. Our borrowing costs incurred therefrom may adversely affect our financial performance and liquidity. By comparison, the [REDACTED] from the [REDACTED] will become our equity without any additional financial repayment obligations (i.e. principal amount and associated interest expenses) towards our Shareholders under normal circumstances.

USE OF [REDACTED]

We estimate that the net [REDACTED] from the [REDACTED] assuming the [REDACTED] is not exercised based on the [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED], after deducting the related expenses, are estimated to be approximately HK\$[REDACTED] million. We intend to apply such net [REDACTED] in the following manner:

- (i) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated net [REDACTED], will be earmarked for satisfying the applicable working capital requirement which is to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts for being a probationary contractor on the List of Approved Specialist Contractors for Public Works under the category of "Landslip preventive/remedial works to slopes/retaining walls" ("**Approved Specialist Contractor**"). For further details on the applicable working capital requirement, please refer to the paragraph headed "Business – Business strategies – 1. Reserving additional working capital to fulfil the requirements for being an Approved Specialist Contractor" in this document;
- (ii) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated net [REDACTED], for strengthening our manpower by recruiting additional staff, including project manager/site agent, site engineer, site foremen, safety officer/supervisor, labour officer, crane truck operator, site workers and administrative staff;
- (iii) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated net [REDACTED], will be used for financing the acquisition of additional machinery, namely drilling rigs, grout pumps, shotcrete machine, pneumatic drill, crane truck, air compressors, generators and motor vehicles; and
- (iv) approximately HK\$[REDACTED] million, representing approximately [REDACTED] of the estimated net [REDACTED], will be used for increasing our reserve for financing the issue of performance guarantees in favour of our customers.

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The following table summarises how the net [REDACTED] to be received by us from the [REDACTED] are intended to be applied and the timing of application:

	From the Latest Practicable Date to 31 December 2019 <i>HK\$'million</i>	For the six months ending 30 June 2020 <i>HK\$'million</i>	For the six months ending 31 December 2020 <i>HK\$'million</i>	For the six months ending 30 June 2021 <i>HK\$'million</i>	Approximate % of net Total <i>HK\$'million</i>	
Strengthening our manpower by recruiting additional staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Acquisition of additional machinery	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Increasing our reserve for financing the issue of performance guarantees in favour of our customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sub-total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Maintaining the specific working capital required for being an Approved Specialist Contractor from the Latest Practicable Date to 31 December 2021					[REDACTED]	[REDACTED]
Total					<u>[REDACTED]</u>	<u>[REDACTED]</u>

If the final [REDACTED] is set at the highest or lowest point of the indicative [REDACTED], the net [REDACTED] of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED] million, respectively. In such event, the net [REDACTED] will be used in the same proportions as disclosed above irrespective of whether the [REDACTED] is determined at the highest or lowest of the indicative [REDACTED] range. Our executive Directors consider that the net [REDACTED] from the [REDACTED] will be sufficient to finance our Group's business plans up to the period ending 31 December 2021.

In the event that the [REDACTED] is determined at the high-end of the [REDACTED] (i.e. HK\$[REDACTED]) and the [REDACTED] is exercised in full, we intend to apply the additional net [REDACTED] from the [REDACTED] to the above uses in the proportions stated in the preceding paragraphs above.

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To the extent that the net [REDACTED] from the issue of the [REDACTED] are not immediately required for the purposes above, it is the present intention of our executive Directors that such net [REDACTED] will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong. Should our executive Directors decide to re-allocate the intended use of [REDACTED] to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of [REDACTED] as described above, our Group will issue an announcement in accordance with the GEM Listing Rules. In the event that the net [REDACTED] from the [REDACTED] are insufficient to finance the expenditure as mentioned above, the shortfall will be financed by the internal resources of our Group and/or external borrowings.

IMPLEMENTATION PLAN

We will endeavour to achieve the following milestone events for each of the six-month period from the Latest Practicable Date up to 31 December 2021, and their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed “Bases and assumptions” in this section.

From the Latest Practicable Date to 31 December 2019

Business strategies	Implementation plans	Use of [REDACTED] <i>HK\$’million</i>
Strengthening our manpower by recruiting additional staff	Recruit a project manager/site agent, a site engineer, a site foreman, a safety office/supervisor, a labour officer, a crane truck operator, 11 site workers and an administrative staff	[REDACTED]
Acquisition of additional machinery	Acquire four drilling rigs, three grout pumps, one shotcrete machine, one pneumatic drill, one crane truck, four air compressors, two generators and five motor vehicles	[REDACTED]
Increasing our reserve for financing the issue of performance guarantees in favour of our customers	Increasing our reserve for financing the issue of performance guarantees	[REDACTED]

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For the six months ending 30 June 2020

Business strategies	Implementation plans	Use of [REDACTED] <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	<ul style="list-style-type: none">● Salary payments for a project manager/site agent, a site engineer, a site foreman, a safety office/supervisor, a labour officer, a crane truck operator, 11 site workers and an administrative staff recruited during the period from the Latest Practicable Date to 31 December 2019	[REDACTED]

For the six months ending 31 December 2020

Business strategies	Implementation plans	Use of [REDACTED] <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	<ul style="list-style-type: none">● Recruit a site foreman, 14 site workers and an administrative staff● Salary payments for a project manager/site agent, a site engineer, a site foreman, a safety office/supervisor, a labour officer, a crane truck operator, 11 site workers and an administrative staff recruited during the period from the Latest Practicable Date to 31 December 2019	[REDACTED]

For the six months ending 30 June 2021

Business strategies	Implementation plans	Use of [REDACTED] <i>HK\$'million</i>
Strengthening our manpower by recruiting additional staff	<ul style="list-style-type: none">● Salary payments for a site foreman, 14 site workers and an administrative staff recruited during the six months ending 31 December 2020	[REDACTED]

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From the Latest Practicable Date to 31 December 2021

Business strategies	Implementation plans	Use of [REDACTED] <i>HK\$'million</i>
Reserving working capital to fulfil the requirements for being an Approved Specialist Contractor	Amount earmarked for satisfying the applicable working capital requirement which is to maintain a minimum working capital of 10% of the combined annual value of uncompleted works on outstanding contracts for being an Approved Specialist Contractor	[REDACTED]

BASES AND ASSUMPTIONS

The implementation plan set out by our executive Directors is based on the following bases and assumptions:

- there will be no impediments, legal or otherwise, which would materially disrupt or affect our proposed application for being an Approved Specialist Contractor on probationary status;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the funding requirement for each of our Group's future plans described in this document from the amount as estimated by our executive Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no changes in the effectiveness of the licences, permits and qualifications obtained by our Group, where applicable;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" in this document.